



REPUBLIC OF SINGAPORE

REPORT
OF THE
AUDITOR-GENERAL
FOR THE FINANCIAL YEAR
2011/12



**AUDITOR-GENERAL'S OFFICE
SINGAPORE**

20 July 2012

Dr Tony Tan Keng Yam
President
Republic of Singapore

Dear Mr President

In accordance with the provisions of the Audit Act (Cap. 17, 1999 Revised Edition), I am pleased to submit my Report on the audits carried out for the financial year 2011/12.

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
2011/12

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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 2011/12.

The audits help give assurance to the President and Parliament 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.

Audit Authority

AGO's authority to audit and report comes from the following laws:

- Constitution of the Republic of Singapore (1999 Revised Edition);
- Audit Act (Cap. 17, 1999 Revised Edition);
- Financial Procedure Act (Cap. 109, 2012 Revised Edition); and
- Other relevant Acts.

The details of AGO's audit authority are in Appendix I.

In general, AGO carries out two types of audits, namely:

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

The type of audit that AGO may carry out on an entity is prescribed by the relevant law.

Entities Subject to AGO's Audit

The entities subject to AGO's audits are mainly Government ministries, organs of state, Government funds and statutory boards. AGO also audits certain Government-owned companies and other accounts and funds.

Government Ministries, Organs of State and Government Funds

The audits of Government ministries and organs of state are carried out as part of the audit of the Government Financial Statements which incorporates the accounts of these entities. These audits are carried out annually and they culminate in an audit opinion on the Government Financial Statements for the financial year prepared by the Minister for Finance. In the course of such audits, AGO also checks for financial irregularities, excess, extravagance, or gross inefficiency tantamount to waste in the use and management of funds and resources, and on whether measures to prevent such lapses are in place.

For certain Government funds which are included in the Government Financial Statements, the law also provides for separate financial statements to be prepared and audited by the Auditor-General or an auditor appointed by the Minister concerned in consultation with the Auditor-General. For Government funds whose financial statements are audited by commercial auditors, AGO would carry out selective audits on a rotation basis.

Statutory Boards

For statutory boards, the Acts of most boards require their financial statements to be audited by the Auditor-General or by an auditor appointed by the Minister concerned in consultation with the Auditor-General.

Exercising its discretion¹, AGO would audit the financial statements of a few selected statutory boards while for the rest, their financial statements would be audited by commercial auditors appointed in consultation with the Auditor-General. This allows AGO to free up its limited manpower resources to conduct selective audits on statutory boards. Such audits are carried out on a rotation basis. This approach enables a wider and deeper audit coverage of statutory boards beyond the audit of financial statements.

As current legislation does not provide AGO with the authority to carry out selective audits of statutory boards except in the course of auditing their financial statements, the requisite authority is provided by a Ministry of Finance (MOF) circular (first issued in 1972 and revised in 2011) read together with the Audit Act.

Other Entities and Accounts

As for other entities and accounts, the audits that AGO may carry out are financial statements audits under the relevant laws or audits pursuant to requests made under the Audit Act from public authorities or bodies administering public funds.

Reports on the Audits

All audit observations are conveyed to the respective Government ministries, statutory boards and other entities by way of “AGO management letters”. In the case of statutory boards, the management letters are also sent to their respective supervising ministries.

As AGO’s audits are conducted on a test check basis, they do not reveal all irregularities and weaknesses. However, they should enable me to discover some of the occasional serious lapses.

¹ This is with the exception of the Monetary Authority of Singapore (MAS) which shall be audited by AGO annually as required under the MAS Act (Cap. 186, 1999 Revised Edition).

After AGO has completed the audits for the financial year, I would submit to the President the *Report of the Auditor-General* giving an account of all the audits conducted. The Report would subsequently be presented to Parliament.

The Report includes coverage of selected audit observations. These are typically the more significant findings in terms of monetary value, frequency of occurrence and impact on accounting. Minor lapses are also reported if they point to significant or systemic weaknesses in internal control which, if not addressed, could lead to serious consequences.

The reporting of audit observations in the *Report of the Auditor-General* is an essential part of the system of public accountability. The irregularities and weaknesses reported do not necessarily reflect the general state of administration in the entities audited, but point to areas where improvement should be made in the accounting, use and management of public funds and resources.

Inquiries by Public Accounts Committee

The Public Accounts Committee (PAC) deliberates on the *Report of the Auditor-General* and, where necessary, it would require the Government ministries, organs of state and statutory boards concerned to account for the lapses reported. I attend the meetings of the Committee to provide clarification and views on matters discussed.

Upon completion of its deliberations, the Committee would submit its report to Parliament.

Audits Carried Out for Financial Year 2011/12

For the financial year 2011/12, AGO audited the following:

- The Government Financial Statements (incorporating the accounts of all Government ministries and organs of state);
- Three Government funds;
- Nine statutory boards;
- Five Government-owned companies; and
- Two other accounts.

AGO also investigated 11 complaints on matters relating to the management and use of public funds and resources.

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

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

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

Audit Observations

Main Findings

A substantial portion of the audit findings pertains to procurement and contract management, and financial administration. The lapses and irregularities point to the need for the public sector agencies concerned to make improvements to the following areas:

- Internal controls;
- Administration of payments, including grant disbursements;
- Management of contracts for works or services; and
- Scrutiny by approving authorities.

On the last point, I have observed quite a number of instances where the requisite approval of an approving authority was sought after contractual commitment had been made, for example, approval for award of a contract or for issue of a variation order. In other instances, approving authorities were provided with incomplete or incorrect information on matters that were important for their decision-making.

An approving authority is a gatekeeper responsible for ensuring that the principles of open and fair competition, transparency and value for money are upheld. This is not a perfunctory role and must not be treated as such by procurement officers. On its part, the approving authority, when considering a recommendation to accept a tender, waive competition, issue a variation order, etc. should seek to be fully satisfied that those principles are upheld and in doing so, should exercise a measure of scepticism in its scrutiny.

Importance of Documentation

Another observation is the general lack of documentation in the procurement process in some agencies. To ensure the accountability of individual officers and to protect them against allegations of impropriety, it is important that all matters that have a bearing on the decision-making process are meticulously documented. Examples are the basis for a tender evaluation committee's recommendation, the reasons for changing the scope of work after closing of a tender or quotation, the justification for a short opening period for a tender or quotation, the information conveyed to bidders, and clarifications or additional information given to an approving authority for its decision-making.

Alert on At-risk Purchases

In this year's audits as well as last year's, AGO found that a number of Government departments had been grossly overcharged for projects, primarily as a result of the inappropriate use of term contracts. The overcharging pertained to items not priced in the term contracts and these formed the bulk of items purchased. As there could be overcharging of a similar nature in other agencies as well, AGO has alerted MOF to this and recommended that public sector agencies with projects of similar risk profile conduct checks to ensure that the purchases and payments made are in order. AGO also recommended that MOF introduce procurement rules to prevent the inappropriate use of term contracts and to ensure that agencies are charged at fair market prices for items not priced in the term contract.

Imparting Values

I note that a common response by agencies to AGO's findings on procurement is to send their officers for more training in procurement. While training is important, I should mention that many of the lapses found were not due to a lack of knowledge of procedures but more to administrative expediency or preference for certain suppliers taking precedence over financial prudence as manifested in the following examples:

- Waiving competition on weak grounds;
- Allowing price alterations by certain bidders;
- Not evaluating bids in accordance with specified criteria; and
- Splitting of a purchase to avoid calling of quotation or tender.

Procurement officers should be well imbued with the principles of fairness, transparency, competition and value for money. It is therefore important that training in procurement also incorporates the imparting of values expected of public officers as custodians and stewards of public moneys. This should be reinforced by the senior management of public sector agencies setting the right *tone at the top* on governance and financial control matters, the importance of which the PAC had emphasised in its report (Parl. 2 of 2012) presented to Parliament on 11 April 2012.

Acknowledgements

I acknowledge with appreciation the co-operation and assistance given to AGO's audit teams by Government ministries, organs of state, statutory boards, Government-owned companies and other entities audited. This has enabled the audits to proceed smoothly.

I would also like to thank all my officers for their hard work throughout the past year carried out with professionalism and dedication to duty.

LIM SOO PING
Auditor-General
Singapore

20 July 2012

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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 2012 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, 2012 Revised Edition) were submitted to the Auditor-General for audit under section 8(1) of the Audit Act (Cap. 17, 1999 Revised Edition) on 19 July 2012.
2. The audit has been completed and the Auditor-General issued his audit report on the Financial Statements to the Minister for Finance on 20 July 2012. In accordance with section 8(3) of the Audit Act, the Auditor-General submitted the audit report to the President on 20 July 2012.
3. The Minister is required to submit the audited Financial Statements to the President under Article 147(5) of the Constitution of the Republic of Singapore and section 18 of the Financial Procedure Act.
4. In accordance with section 8(3) of the Audit Act, the President would present to Parliament the audited Financial Statements with the audit report thereon.

Acknowledgements

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

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

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, including checks for financial irregularities, excess, extravagance, or gross inefficiency tantamount to waste in the use of funds and resources, and on whether measures to prevent such lapses are in place. In this regard, AGO also takes into account complaints received on the use and management of public funds and resources. The authority for these audit checks 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.

3. AGO audited the financial statements of the Workers' Fund¹ for the financial year 2011/12 as provided for under the Work Injury Compensation (Workers' Fund) Regulations (Cap. 354, Rg 2). An unmodified audit opinion was issued on the financial statements.

4. For Government funds whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation. In the financial year 2011/12, AGO carried out selective audits of the following Government funds:

- (i) Lifelong Learning Endowment Fund
- (ii) Medical Endowment Fund

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

Acknowledgements

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

Selected Observations

6. 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

Over-recovery of Housing Loan

7. AGO's test checks revealed a case of over-recovery of housing loan by the Ministry of Defence (MINDEF). In 1985, MINDEF gave a 20-year housing loan of \$110,000 to a Singapore Armed Forces officer ("borrower"). MINDEF was still collecting the loan instalments through deductions from the borrower's Central Provident Fund (CPF) account six years after the loan was fully repaid. This resulted in an over-collection of \$47,673 as at June 2011.

8. From June 2005 to March 2008, MINDEF had liaised with CPF Board and the borrower to establish whether the loan had been fully repaid as MINDEF could not locate the loan record. However, there was no further follow-up by MINDEF thereafter to resolve the matter. Following AGO's audit, MINDEF reviewed the case and established that the loan had been fully paid up in June 2005. It immediately ceased further collection of monthly instalments in July 2011 and refunded \$51,797 (including interest on the amount over-collected) in October 2011 to the borrower's CPF account.

Shipboard Allowances Not Paid to Servicemen

9. Under a MINDEF Directive, national servicemen in combat vocations (“servicemen”) who are on shipboard assignments are to be paid a Shipboard Allowance.

10. AGO’s test checks of records of servicemen of a naval base who were eligible for Shipboard Allowance for the period from November 2009 to July 2010 revealed that 27 servicemen were not paid the allowance totalling \$2,900.

11. Following AGO’s findings, MINDEF carried out checks to ascertain the full extent of non-payment of the allowance to eligible servicemen. MINDEF reported that 853 servicemen (including the 27 found by AGO) were not paid the allowance totalling \$32,000 for the period from September 2002 to April 2011. MINDEF informed AGO that it has since paid all the servicemen their allowances.

12. MINDEF also informed AGO that it has put in place checks for all naval units to verify and ensure the accuracy of payments of the allowance.

Lapses in Procurement at a Recruitment Centre

13. Following a complaint alleging irregular procurement practices, AGO carried out test checks on selected quotations called by a recruitment centre for purchase of customised pens (with printed logo).

14. AGO observed lapses in two purchases (total value \$5,600) of 5,000 customised pens each. The delivery timelines for both purchases were unreasonably short, being one and five working days after the close of quotation. Taking into account the time needed for approval of a quote, there was hardly time left for the supplier to prepare and deliver the customised pens.

15. For both purchases, the lowest bids were rejected on the basis that the bidders were not able to meet the specified delivery dates for the pens which were urgently needed. In each case, the second lowest bidder was awarded the quotation instead. The same supplier was the successful bidder for both purchases. This supplier had also been awarded earlier quotations by the centre for similar customised pens.

16. AGO observed that in the end, notwithstanding its need for urgent delivery for both purchases, the centre awarded one of the quotations 16 days past the delivery date specified in the quotation. The pens were delivered three weeks after the specified delivery date. For the other purchase, the centre awarded the quotation a day before the specified delivery date and the pens were only received four days after the specified delivery date.

17. The centre's actions may be perceived as giving unfair advantage to a particular supplier.

18. MINDEF informed AGO that there was no intent to give an unfair advantage to any supplier and that it would be more careful in the specification of delivery timeline in its quotations.

MINISTRY OF EDUCATION

Schools' Excessive Reserves of Edusave Grants

19. The Ministry of Education has been disbursing Edusave Grants annually to schools² since 1993 for the purchase of resources (such as equipment, educational publications) and to subsidise programmes for enhancing the quality of teaching and learning. The amount of grants given to a school is based on its student enrolment and the grants form part of the school's annual budget. During the financial year 2010/11, Edusave Grants of \$38.50 million were disbursed to schools.

20. The Ministry requires schools to optimise the use of their budgets for the benefit of the current cohort of students. The Ministry has informed schools that it is prudent for them to accumulate a reserve of Edusave Grants to meet urgent or unforeseen expenditure. A reserve equivalent to three to six months' expenditure from Edusave Grants is considered a healthy level by the Ministry.

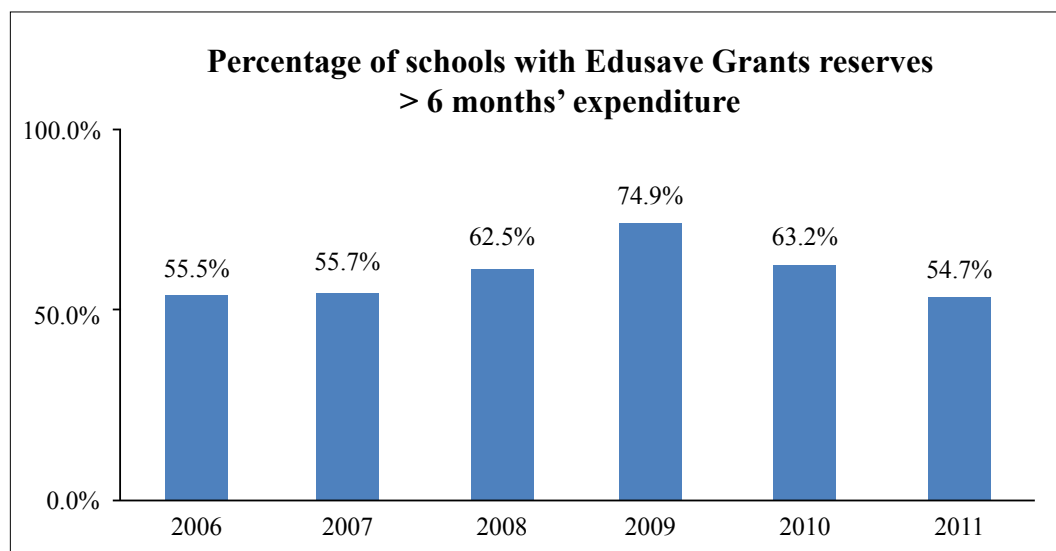
² Government and Government-aided schools, junior colleges, a centralised institute, independent schools and colleges, specialised schools, Government-supported special education schools and the Institute of Technical Education.

21. AGO’s audit in 2011 of Edusave Grants reserves held by the Government and Government-aided schools³ for 2009 and 2010 showed that more than half of the schools had accumulated large reserves of Edusave Grants exceeding six months’ expenditure. The average reserves of these schools were equivalent to 18 months (for 2009) and 16 months (for 2010) of their average monthly expenditure (see table).

As at end of calendar year	Number (%) of schools with Grants reserves > 6 months’ expenditure	Grants reserves accumulated	Equivalent to number of months of average expenditure
2009	256 (74.9%*)	\$35.23 million	18 months
2010	211 (63.2%*)	\$29.64 million	16 months

* of 342 and 334 schools checked for year 2009 and 2010 respectively

22. AGO also found that the reserves of Edusave Grants held by schools had been excessive throughout the last six years (2006 to 2011). More than half of the schools had reserves exceeding six months of their expenditure from Edusave Grants (see chart).



³ Comprises all Government and Government-aided primary and secondary schools and junior colleges with access to the Ministry’s Integrated Financial Administration and Accounting System.

23. AGO observed that the amount of Edusave Grants allocated annually to a school does not take into consideration the school's reserves. In addition, excessive reserves are not recovered, except when a school is closed down.

24. The Ministry agreed with AGO that schools should not accumulate large reserves of Edusave Grants as the grants are meant to benefit the current cohort of students. The Ministry would work with schools that have large reserves to make use of the surplus and to develop more comprehensive plans to benefit their students.

Lapses in Managing Pupils Fund Accounts

25. Schools organise subsidised enrichment programmes for students and collect co-payments from participating students. The co-payments are either collected in cash or drawn from the students' Edusave accounts. The collections are held in the schools' Pupils Fund accounts (sub-accounts of the School Fund) and used to pay vendors for the enrichment programmes. As at 31 December 2010, there was a total balance of \$3.55 million in the Pupils Fund accounts of 312 schools.

(i) Improper Retention of Unused Collections

26. Co-payments collected in respect of a particular enrichment programme may exceed what is paid to the vendor. Such unused collections could arise, for example, when discounts are given by vendors.

27. AGO's checks at eight schools revealed seven instances of improper retention of unused collections, amounting to \$17,900, by three schools. This arose mainly from erroneous instructions from the Ministry to schools on the treatment of unused collections. The instructions stipulated that "Generally, collections from pupils should be used fully to pay for their share of the enrichment programme cost. . . . If there is a small balance due to discount or forfeiture of amount collected from pupils who were absent, the balance can be used to reduce the co-payment for new programmes organised by schools." The Ministry did not require schools to obtain the consent of the students' parents to retain such unused collections.

28. The Ministry's instructions are not in compliance with the Education (Schools) Regulations (Cap. 87, Rg 1). The Regulations state that moneys collected from students for enrichment programmes shall be used for the purposes for which they are collected. This means that schools are not allowed to retain unused collections for use in new enrichment programmes unless consent has been obtained from the parents concerned or permission obtained from the Edusave Scheme Administrator (in respect of collections made from Edusave accounts).

29. The Ministry informed AGO that it would update its guidelines to require schools to obtain the necessary consent before retaining any unused collections. It would work with all schools to review their Pupils Fund account balances and make refunds for any over-collections.

(ii) Inadequate Records on Collections

30. AGO's checks at the eight schools also revealed that the schools did not regularly track and reconcile the collections received from students against both payments to vendors and refunds to students. As a result, the schools did not have the records necessary for the proper management of collections received from students.

31. Upon AGO's request, the eight schools carried out a reconciliation of their Pupils Fund account balances and managed to identify the composition of \$283,500 (83.1 per cent of the total Pupils Fund account balances of \$341,200). The schools were unable to trace the source of the remaining \$57,700 because of inadequate records of collections.

32. The Ministry informed AGO that it is in the process of developing a new school billing system that would enable schools to better track and refund unused portions of collections.

MINISTRY OF FINANCE

President's Concurrence Not Obtained for Promissory Note Issued

33. The Constitution of the Republic of Singapore (1999 Revised Edition) includes safeguards to protect the past reserves⁴ of the Government. One such safeguard, set out in Article 144 of the Constitution, requires the President's concurrence for the granting of certain loans and guarantees.

34. AGO found that the Ministry of Finance did not comply with Article 144 of the Constitution when it issued a promissory note without obtaining the required President's concurrence. The promissory note for US\$16.34 million was issued on 4 January 2012 to the International Development Association. In March 2012, the Association encashed US\$2.94 million from the note.

35. The Ministry explained that the President's concurrence was not sought because of an administrative oversight stemming from an officer's lack of familiarity with the relevant processes needed for such a transaction, which occurred infrequently. Following AGO's observation, the Ministry took immediate steps to rectify the matter.

36. The Ministry subsequently obtained the President's concurrence and issued a fresh promissory note in place of the one issued on 4 January 2012 which is invalid. There was no draw on past reserves as the Ministry had made the cash payment of US\$2.94 million from its own operating expenditure budget for the financial year 2011/12. The Ministry has reviewed its internal processes and tightened its standard operating procedures to prevent similar occurrences in the future.

⁴ Past reserves refer to reserves which were not accumulated by the Government during its current term of office.

VITAL

Inadequate Checks to Prevent Duplicate Payments

37. Following the establishment of Vital⁵ (a department under the Ministry of Finance) on 1 April 2006, payment processing which was previously done by agencies (i.e. ministries and organs of state) is now mostly centralised at Vital. Under this arrangement, payments for goods and services are to be certified by the agencies' Certifying Officers before payment vouchers are raised and approved by Vital via the Government-wide accounting system. According to Vital, 286,071 payment vouchers amounting to \$26.16 billion were processed in the period from April to December 2011.

38. According to Government instructions, Certifying Officers have to check, among other things, that goods and services have been received and invoices are in order before the invoices are sent to Vital for payment processing. Officers at Vital are responsible for checking that payment requests are properly supported and certified by the Certifying Officers before effecting payments. There are built-in controls in the accounting system to highlight possible duplicate payment requests to the Vital officers.

39. AGO test-checked payments processed by Vital for the period from April to December 2011 and noted 12 cases of duplicate payments, amounting to \$18,634,209. The 12 cases were detected after payments had been made; four cases were detected by agencies or Vital, three by vendors and five by AGO.

40. The duplicate payments were due to inadequate checks by agencies' Certifying Officers and Vital officers, as well as inadequacies in the built-in system controls for highlighting possible duplicate payment requests.

41. Although 12 cases of duplicate payments out of the 286,071 transactions processed may not appear significant, the fact that such duplicate payments could be made (including one payment of \$18,631,071) indicates that controls over payment should be further tightened.

42. The agencies and Vital explained that they have since taken measures to tighten payment checks. Action is also being taken to enhance the built-in system checks to prevent and detect duplicate payments. All the duplicate payments have since been recovered.

⁵ Vital was known as Vital.org before 16 May 2011.

MINISTRY OF FOREIGN AFFAIRS

Lapses in Procurement of Services of a Consultant

43. An overseas mission engaged a company as its public affairs consultant for a period of one year with effect from 1 March 2004. AGO observed the following lapses in the procurement of the services of the company:

- (a) The mission, following the expiry of the contract, continued to engage the company at the original contract price of \$6,930 per month for the next 6 years and 10 months from 2005 to 2011 without signing a new contract. This is not in line with Government procurement procedures. Without a formal contract, the mission would not be able to protect the Government's interest should the company fail to deliver the required services or should there be any dispute.
- (b) When a limited tender was eventually called in November 2011, the mission decided not to award the tender to any of the invited tenderers but to continue to engage the incumbent, which did not participate in the tender exercise. The mission explained that this was to ensure value for money as the company's proposed fee of \$7,920 per month was lower than the quotes (which ranged from \$11,286 to \$35,640 per month) received from the nine companies which participated in the tender. The mission also explained that the company had performed satisfactorily over the years. AGO noted the mission's explanations; however, the mission's actions can be perceived as not being fair and transparent.

44. Following AGO's audit, the mission held back the signing of the contract with the company and informed AGO that it would re-call the tender to ensure that the Government procurement principles of fairness, transparency and value for money are adhered to.

MINISTRY OF HEALTH

Irregularities in Contract Management of Hospital Development Project

45. The construction of the Khoo Teck Puat Hospital, undertaken by the Ministry of Health, was completed in 2010. AGO test-checked expenditure on the project (carried out under two construction contracts and nine consultancy services contracts with a total value of \$453.17 million) and found several irregularities. Details are in the following paragraphs.

(i) Overpayment of \$0.83 million in Adjustments for Steel Price Fluctuations

46. For the contract for foundation works and basement construction, the Ministry overpaid the contractor by an estimated \$0.83 million out of a total payment of \$4.90 million in adjustments for fluctuations in the price of steel reinforcement. The price adjustments were determined by one of the consultants engaged by the Ministry. The overpayment comprised the following amounts:

- (a) \$737,500 being the price adjustment for steel reinforcements delivered during the period when the completion of the contract was delayed by the contractor. Under the contract, the contractor is not entitled to this price adjustment.
- (b) \$57,500 being the 3 per cent allowance for wastage applied to the gross weight of straight steel reinforcement bars. The contract permits such an allowance only for bars which are pre-cut and pre-bent to requirements in the factory.
- (c) \$36,400 due to instances of double-counting of steel reinforcements.

47. The Ministry informed AGO that it would recover the overpayment from the contractor and would engage an external auditor to check for any similar overpayments. It would also improve its systems and processes to minimise such irregularities, and may institute a system of mid-term audits for infrastructure projects.

(ii) \$23,000 Paid for Services Without Contract and Without Obtaining Competitive Bids

48. A \$23,000 partial payment for acoustic consultancy services (full value being \$99,000) was not supported by any contract between the Ministry and the service provider. This is a breach of the Financial Regulations (Cap. 109, Rg 1). Competitive bids, as required by Government procurement rules, were also not obtained. The procurement is therefore not in line with the Government procurement principles of open and fair competition, transparency and value for money.

49. The Ministry informed AGO that it has been taking measures to minimise the recurrence of payment errors and to ensure compliance with Government procurement rules.

(iii) Late Payments

50. 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. The Act was passed to address cash flow problems faced by the construction industry by upholding the rights of parties to seek progress payments for work done and goods supplied.

51. For the two construction contracts, AGO found instances where the stipulated time frames were not adhered to:

- (a) Six instances of late response to contractors' claims (delays of up to six days), of total value \$14.46 million; and
- (b) Twenty-six instances of late payment to contractors (delays as long as 33 days), of total value \$170.91 million.

52. Late payment or response to a payment claim may cause the claimant to apply for adjudication under the Act. In the case of a late response to a payment claim, the agency concerned risks being legally liable to pay the full amount claimed, even if there are grounds for the agency to withhold payment. The agency may also be liable to pay interest on the late payment.

53. The Ministry informed AGO that it has a monitoring system for payments and this has reduced the incidence of late payments for infrastructure projects to 8 per cent, 1 per cent and 3 per cent in the financial years 2009, 2010 and 2011 respectively.

MEDICAL ENDOWMENT FUND

Non-compliance with Medifund Disbursement Guidelines

54. The Medical Endowment Fund (Medifund) Scheme was set up by the Ministry of Health in 1993. Singaporeans who have difficulty paying the balance of their subsidised medical bills after drawing on all other means⁶ of funding, may apply to Medifund Institutions⁷ (MFIs) for Medifund assistance. The applicants are subject to means-testing to determine their eligibility. The amount of Medifund assistance that an applicant receives depends on his monthly per capita household income and other criteria in the Medifund guidelines issued by the Ministry.

55. AGO carried out test checks at selected MFIs and found instances of non-compliance with the Medifund guidelines by the MFIs. Examples of these are as follows:

- (a) Seven recipients who were non-Singaporeans and therefore not eligible for Medifund subsidy were given subsidies amounting to \$23,200.
- (b) In seven cases, one or more of the recipients' family members were not factored into the means-testing but the documents required to support their exclusion were not obtained.
- (c) In 13 cases, the annual means-testing to review the recipients' subsidy status was delayed by up to 18 months. As a result, the recipients continued to receive subsidies based on the last assessment made. As their household income could have changed, the Medifund subsidy given might not be correct.
- (d) Two MFIs did not retain income documents submitted by recipients. In the absence of such documents, there was no evidence to support the level of subsidy given to them.

56. The Ministry informed AGO that it would work with the MFIs to review the affected cases and strengthen administrative processes across MFIs.

⁶ Other means of payment include Medisave, MediShield, personal medical insurance, employer-provided medical benefits, and cash. As Medifund is a last resort for assistance, patients must use up all other means before receiving Medifund assistance.

⁷ These are restructured hospitals and institutions, and intermediate and long-term care institutions which have applied and been accepted into the Medical Endowment Fund Scheme.

MINISTRY OF HOME AFFAIRS

IMMIGRATION AND CHECKPOINTS AUTHORITY

Vessels Not Put to Use

57. Following a complaint, AGO conducted an audit on the management of marine vessels under the control of the Immigration and Checkpoints Authority (ICA) Coastal Command. The audit revealed that five vessels had not been in use for periods ranging from five to eight years. These vessels were transferred to ICA from the then Customs and Excise Department following the establishment of ICA in 2003. The total net book value of these vessels at the point of last use was estimated at \$0.85 million.

58. AGO observed that even though the five vessels had technical problems making them unfit or uneconomical for use in operations, ICA Coastal Command had not taken prompt action to deal with the problems. Allowing the five vessels to be left unused and in a state of disrepair for five to eight years is tantamount to a waste of public resources. This also erodes whatever salvage value the vessels may have.

59. Arising from the audit, ICA engaged a certified marine surveyor to assess the seaworthiness of three of the vessels. The surveyor recommended that these vessels be condemned as they were in a bad condition due to prolonged lay-off at sea and the cost of repair was too high. As for the remaining two vessels, ICA intends to condemn them since they are no longer needed. ICA informed AGO that it would dispose of the vessels and call for quotations to get the best salvage value. According to ICA, the salvage value for the five vessels as at June 2012 was estimated at \$300,000. ICA also informed AGO that its units have been reminded to exercise greater supervision over the management of assets.

Irregularities in Procurement under Term Contracts

60. In the financial year 2011/12, AGO carried out test checks on projects undertaken by the ICA under two Additions and Alterations (A&A) term contracts. ICA engaged a project management company to manage the projects. The audit revealed irregularities in choosing to use term contracts, in the calling of quotations by one term contractor, in the payment for works done and in the management of the projects. Details of the audit observations are in the following paragraphs.

(i) Inappropriate Use of Term Contract

61. The purpose of a term contract is to facilitate the procurement of works and services required from time to time without the need to call for quotations each time. AGO found the use of an A&A term contract for 12 projects to be inappropriate as 80 to 100 per cent of the works required in each of the projects were not priced in the term contract, i.e. not included in the Schedule of Rates. The term contractor would call three quotes for those works and earn a 5 per cent margin over the invoiced price. The value of the works involved was \$1.17 million (96.7 per cent of total value of \$1.21 million for the projects). Instead of using the term contract, ICA should have called open tender or quotation to ensure transparency, open and fair competition, and value for money.

(ii) Weaknesses in Calling of Quotations by Term Contractor

62. AGO test-checked the quotations called by one term contractor and found six instances (total value \$390,900) where the quotations were submitted by a company related to the term contractor. In all these instances, the related company submitted the lowest quote and was awarded the jobs. Being the party that called and received the quotations, the term contractor was in a position to use information from the other quotations received to benefit its related company. Hence, there is no assurance of transparency, fairness and competitiveness in the quotation process.

(iii) ICA Paying More for Works

63. AGO found that ICA paid \$107,000 more than it should to the two term contractors:

- (a) Although certain works were specified in the Schedule of Rates of the two term contracts, those rates were not used. Instead, ICA was billed at higher prices which the contractors had obtained by calling three quotes. This resulted in ICA paying about \$68,000 more for the works.
- (b) The contractors charged ICA for works done using incorrect rates and work quantities. These errors resulted in ICA paying about \$39,000 more for the works.

(iv) Lapses in Project Management

64. The above lapses and irregularities were largely due to the project managers (from the project management company) not having:

- (a) Assessed the appropriateness of using term contracts as compared to calling an open tender/quotation for the works required, taking into consideration that a substantial amount of the works required was not priced in the Schedule of Rates of the term contract;
- (b) Ensured that independent and competitive quotations were called for the works not found in the Schedule of Rates; and
- (c) Ensured that the term contractors billed ICA correctly for the works based on correct rates and quantities.

65. It is important that ICA exercises adequate oversight over the project managers especially in the evaluation of their recommendations on procurement method, acceptance of quotations and evaluation of pricing for works.

66. In response to AGO's findings, ICA informed AGO that it has implemented measures to prevent the recurrence of such lapses and has initiated actions to recover the overpayments from the contractors. ICA would also work with the Ministry of Home Affairs to review whether the project management company has failed to exercise due diligence in carrying out its duties and assess the need to seek remedies from the company for the higher costs consequently incurred by ICA. In the meantime, ICA has highlighted the lapses to the project management company and instructed the company to address them.

67. The Ministry has also written to the project management company to reiterate that the Ministry takes a serious view of the lapses, and to ask the company to inform the Ministry of the actions it is taking to prevent a recurrence of such lapses.

68. In addition, the Ministry had issued a circular to its departments in September 2011 to clarify the roles of the outsourced project managers and its officers certifying the contractors' invoices. The circular also sets out the principles for the use of term contracts. The Ministry would review the current practice of term contractors calling quotations for works not found in the Schedule of Rates and institute a process that is based on principles of fairness, open competition and value for money.

SINGAPORE POLICE FORCE

Irregularities in Procurement at Two Police Divisions

69. Arising from a complaint, AGO carried out test checks of six projects (total value \$461,400) undertaken by two Divisions of the Singapore Police Force (SPF). The projects were carried out by a contractor under an Additions and Alterations (A&A) term contract. A project management company was engaged to manage the projects on behalf of SPF.

70. The following irregularities were found:

- (a) SPF was overcharged by about \$73,000 (16 per cent of total value) as a result of the term contractor overstating work quantities, charging based on incorrect rates, invoicing for works not carried out, double-billing for works, etc. For example, in one project, the quantity of steel used was overstated by more than 80 per cent.

- (b) Under the contract, for works not listed in the Schedule of Rates, the term contractor was to be paid based on its supplier's invoice with an additional 5 per cent profit. The contract also required the term contractor to declare that the invoiced price was net of trade discounts. AGO found that all the payments made by SPF to the contractor were based on quotations instead of invoices, and the required declaration was not obtained from the contractor. This does not give the assurance that SPF was not overcharged by the contractor.
- (c) All the Purchase Orders (POs) were issued to the term contractor only after the contractor had started the work. In most instances, the POs were issued just before or after the work was completed. Without issuing a PO (a contractually binding document) before the work commences, SPF's interests may not be protected should there be any dispute.

71. The above irregularities also indicate failure on the part of the project managers (from the project management company) in ensuring the accuracy of billings by the term contractor and compliance with contract requirements including the timely issue of POs. There is also a need for adequate oversight by SPF over the project managers.

72. Following AGO's findings, SPF informed AGO that it has implemented measures to prevent the recurrence of such lapses. These include improving its contract management practices and enhancing the competency of its officers. SPF has also initiated action to recover the overpayments from the contractor and project management company. In addition, SPF would be reviewing the performance of the project management company to assess the need to seek remedies from the company.

73. The Ministry of Home Affairs also informed AGO that it has taken up the matter with the project management company. The Ministry informed the project management company that it takes a serious view of the lapses, and asked the company to tighten up its supervision and to inform the Ministry of the actions it is taking to prevent recurrence of such lapses.

Irregularities in Procurement at Police Logistics Base

74. AGO carried out test checks of purchases made by the Police Logistics Base (PLB)⁸ during the period from January 2009 to December 2010. The following lapses were found:

- (a) There were six purchases (total value \$59,200) where there were no compelling reasons for waiver of competition, i.e. to invite only one supplier in each case to quote for the goods. These purchases had also been split to avoid having to seek approval from a higher authority for the purchases. For example, the purchase of a batch of uniforms was split into two separate quotations with the same delivery date, called on the same day and even from the same supplier. By splitting purchases, PLB would not enjoy economies of scale and inviting only one supplier to quote does not give the assurance of fair competition and value for money.
- (b) There were 12 other split purchases (total value \$36,000) each kept within the threshold value of \$3,000 so as to avoid having to call open quotations (required under the Government procurement procedures for purchases exceeding \$3,000). All the purchases were awarded to the same supplier.
- (c) In two purchases (total value \$145,200), the bids which failed to meet key requirements specified in the quotation were accepted for award. In one of the purchases, the bidder was instructed to commence work even before his bid was approved for award by the approving authority.
- (d) In two purchases (total value \$98,800), payments were made for goods delivered that did not meet the specifications. In one of the purchases, the supplier was paid in full (\$28,900) even though the goods were found to be defective at the time of delivery and had to be returned to the supplier.

⁸ PLB is a division of the Police Logistics Department. It is the authority in SPF on all matters pertaining to general supplies and equipment, operations equipment and mechanical equipment, including contracts for services.

75. SPF informed AGO that it takes a serious view of such lapses and has initiated internal investigations. Officers who have failed to follow proper procedures would be taken to task. It would also be introducing measures and procedures in PLB to address the lapses. Training courses would also be conducted to improve the competency of PLB officers in procurement.

SINGAPORE PRISON SERVICE

Irregularities in Procurement and Contract Management

76. AGO carried out test checks of projects undertaken by the Singapore Prison Service (SPS) under an Additions and Alterations (A&A) term contract. A project management company was engaged to manage the projects. The audit revealed irregularities in procurement and contract management such that SPS paid more than necessary for its projects.

(i) Inappropriate Use of Term Contract

77. AGO found that SPS had inappropriately used the A&A term contract in five projects (value from \$0.13 million to \$2.48 million) where the bulk of the works (56 to 98 per cent) were not found in the Schedule of Rates of the term contract. For such works, the term contractor would call three quotations. Using a term contract under such circumstances carries the high risk of not getting value for money and being overcharged because of the leeway given to the term contractor in the pricing of works not found in the Schedule of Rates, as explained in paragraphs 78 and 79.

(ii) Questionable Practices in Calling of Quotations by Term Contractor

78. As mentioned above, for all the five projects, the bulk of the works were priced based on quotations called by the term contractor. The following were observed:

- (a) The term contractor itself submitted quotes for most of these works and in every instance, its quote was invariably the lowest and it was thus awarded the job.

- (b) In nine quotation exercises, the term contractor obtained one or more quotes from its related companies.
- (c) In three of the nine quotation exercises, all the quotes were from the term contractor itself and its related companies.

79. This is a serious conflict of roles as the term contractor was in a position to know the prices submitted by other companies before it prepares its own bid. There is also doubt as to whether the quotes were obtained on a genuinely competitive basis. Through such a process, the term contractor was awarded a substantial amount of the works required for the five projects. Hence, there is no assurance of transparency, fairness and competitiveness in the quotation process.

(iii) SPS could have been Overcharged

80. In one project, SPS carried out enhancement works to the prison cells using the A&A term contract. At the time of audit, \$2.48 million had been paid to the term contractor. The works mainly involved the supply and installation of the following two materials:

- (a) Stainless steel perforated sheets
- (b) Polycarbonate sheets

81. Ninety-eight per cent (\$2.44 million) of the works, mainly the materials required, were not found in the Schedule of Rates of the term contract. In this project, the term contractor called quotations from two companies and submitted a quote itself. The term contractor was awarded the job as its quote was the lowest.

82. Based on AGO's checks on the market price of the two main materials purchased, the term contractor charged SPS 1.6 times (for stainless steel perforated sheets) and 2.2 times (for polycarbonate sheets) the respective market prices, i.e. SPS could have been overcharged by about \$0.96 million.

83. In addition, AGO found that for the polycarbonate sheets, the term contractor had charged SPS based on sheets of a bigger size than what was supplied, resulting in SPS being further overcharged by about \$40,000.

(iv) Overpayment for Works

84. In five projects, AGO found that SPS paid a total of \$36,000 more than it should to the term contractor because it was billed at incorrect rates and for overstated quantities:

- (a) For certain works found in the Schedule of Rates of the term contract, the rates in the Schedule were not used. Instead, SPS was billed at higher prices which the term contractor had obtained by calling quotes. This resulted in SPS paying about \$19,000 more for the works.
- (b) The term contractor charged SPS for works done using incorrect rates and work quantities. This resulted in SPS paying about \$17,000 more for the works.

(v) Quotations Possibly Falsified

85. For several of the projects, AGO observed telltale signs that the quotations purportedly obtained by the term contractor from other companies could have been falsified. This raises doubts as to whether the term contractor had indeed called quotations for the works. AGO had recommended that the matter be investigated.

(vi) Lapses in Project Management

86. The above irregularities were largely due to project managers (from the project management company) not having:

- (a) Assessed the appropriateness of using the term contract as compared to calling an open tender or quotation for the works required, considering that a substantial amount of the works required was not found in the Schedule of Rates of the term contract;
- (b) Ensured that independent and competitive quotations were called for the works not found in the Schedule of Rates; and
- (c) Advised SPS with regard to the appropriate rates to use for the works and to ensure the accuracy of billings by the term contractor.

87. SPS, on its part, had also not exercised adequate oversight over the project managers especially in the evaluation of its recommendations on procurement method, acceptance of quotations and evaluation of pricing for works.

88. Overall, for the above projects in question, there is no assurance that the Government had obtained the best value for the public funds spent.

89. In response to AGO's findings, SPS explained that the decision to use the term contract for the enhancement works to prison cells was due to the urgency of the works. SPS also informed AGO that it has implemented measures to prevent recurrence of the lapses and has initiated actions to recover the excess payments from the term contractor and the corresponding overpayment of fees from the project management company. SPS would conduct a full review of all past projects carried out under the term contract since the inception of the contract. In the meantime, SPS has highlighted the lapses to the project management company and instructed the company to address them.

90. According to the Ministry of Home Affairs, it has requested the other Home Team Departments to review past projects carried out by the same term contractor. In addition, the Ministry issued a circular to its departments in September 2011 to clarify the roles of the outsourced project managers and its officers certifying the contractors' invoices. The circular also sets out the principles for the use of term contracts. The Ministry would also tighten the existing framework to supervise and monitor the work of outsourced project managers. It would also review the current practice of term contractors calling quotations for works not found in the Schedule of Rates and institute a process that is based on principles of fairness, open competition and value for money.

91. With regard to the possible falsification of quotations, SPS informed AGO that it has since lodged a police report.

MINISTRY OF MANPOWER

No Assurance of Adequate Scrutiny by Approving Authority in Tender Award Process

92. Following a complaint, AGO carried out an audit on the procurement of office chairs by the Ministry of Manpower. For this procurement, the Ministry called an open tender and received 26 bids from 11 suppliers, with prices ranging from \$44,550 to \$258,750.

93. The Tender Evaluation Report (TER) submitted by the tender evaluation committee to the tender approving authority recommended that the highest bid be accepted. AGO observed that the TER stated that the bids were evaluated and ranked based on qualitative factors such as quality, stability, size and comfort. There was no indication that the evaluation and ranking of the bids had taken into account cost-effectiveness. The tender approving authority approved the recommendation in the TER.

94. Awarding to the highest bidder is not the issue per se. It is possible for the highest-priced bid to give the best value if, say, it has the lowest life-cycle cost compared to the other competing bids. However, in this case, the tender approving authority accepted the TER which, without showing any cost-effectiveness consideration, recommended the award of tender to the highest bid. This raises doubt on the adequacy of scrutiny by the approving authority in the tender award process.

95. After AGO reported this audit observation to the Ministry, the Ministry surfaced worksheets showing annualised costing of the bids and informed AGO that the tender evaluation committee actually made its selection based on both the qualitative factors as well as annualised cost. The Ministry however, acknowledged that “the annualised cost and quality rankings for each chair should be included in the TER to facilitate the TB’s [Tender Board’s] evaluation of the tender price.” In the Ministry’s view, “the omission in the TER would not have changed the recommendation and decision on the final award.”

MINISTRY OF NATIONAL DEVELOPMENT

Breach of Laws in Control and Accounting for Revenue and Expenditure

96. The Ministry of National Development appointed the Housing and Development Board (HDB) as its agent to manage a land reclamation project. Under the project, the Ministry also engaged HDB to manage a site for the disposal of unwanted excavated materials for which disposal fees are levied. Site operations commenced in October 2001.

97. AGO found that in accounting for the expenditure on the project in the Government's accounts, the Ministry had reported the expenditure as an amount net of revenue (i.e. disposal fee) collected. As a result, for the period from October 2001 to March 2011, the Government revenue in the Consolidated Fund and expenditure in the Development Fund were understated by \$141.03 million. This manner of accounting breaches Regulation 8 of the Financial Regulations (Cap. 109, Rg 1) which requires that the gross revenue collected and the gross expenditure incurred be recorded in the Government's accounts.

98. The effect of such an accounting method is that revenue (\$141.03 million) was used to fund part of the expenditure on the reclamation project. This contravenes Article 145 of the Constitution of the Republic of Singapore which requires all revenues⁹ to be paid into the Consolidated Fund (and not be used to fund expenditure).

99. The Ministry explained that all government revenues for the period under review had been properly collected and there was no loss of public monies involved arising from the Ministry's accounting method.

100. Following AGO's observation, the Ministry has, from the financial year 2011/12, credited revenue from disposal fees to the Consolidated Fund and charged the gross expenditure on the reclamation project to the Development Fund.

⁹ Unless there is specific written law that provides otherwise, for example, an Act requiring certain revenues to be paid into another Fund.

MINISTRY OF TRADE AND INDUSTRY

Licensee Different from That Approved by Cabinet

101. In December 1998, Cabinet approved the recommendation of the Ministry of Trade and Industry (MTI) and Ministry of National Development to appoint Singapore Power (SP) as the operator of the pilot District Cooling System (DCS) in Singapore's New Downtown (Marina Bay). District cooling is a utility service that involves the centralised production of chilled water for distribution to buildings for air-conditioning purposes.

102. In April 2006, the Energy Market Authority of Singapore (EMA)¹⁰ granted a licence to a joint-venture company, set up by SP with another company, to operate the DCS and to provide district cooling services to buildings in the Marina Bay area for a period of 30 years. AGO noted that Cabinet's approval was not obtained to vary its earlier decision on the DCS operator.

103. At the time when MTI sought Cabinet's approval, MTI was aware of SP's intention to undertake the DCS project through a joint venture, but it did not state this explicitly. According to MTI, it was a known fact that SP's business model is to be a holding company, which does not operate any services and that all operations are carried out by its subsidiaries.

104. In AGO's view, the matter concerns the giving of a right (30 years) to operate a public utility service, and there is a material difference between giving the right to SP and giving it to a joint-venture company (notwithstanding that SP is one of the parties in the joint venture). It is therefore proper, in the interest of good governance, that the exact nature and identity of the entity recommended for award of the right be disclosed to the approving authority for an informed decision to be made.

¹⁰ The District Cooling Act (Cap. 84A, 2002 Revised Edition) was passed by Parliament in April 2001 to regulate and license the operation of district cooling services to areas designated by the Minister of Trade and Industry. Under this Act, the EMA, a statutory board of the Ministry, is the regulator.

105. MTI has explained that the considerations behind recommending SP to operate the DCS, as stated in the 1998 recommendation, were that SP had been closely involved in establishing the financial viability of the DCS and was prepared to operate the pilot service. These remained unchanged with the appointment of the joint-venture company. MTI also informed AGO that it would be informing Cabinet of the appointment of the joint-venture company to operate the DCS.

PRIME MINISTER'S OFFICE

NATIONAL POPULATION AND TALENT DIVISION

Irregularities in Procurement of Event Management Services

106. In following up on a complaint, AGO reviewed two tenders called by the National Population and Talent Division (NPTD) for the provision of event management services for two overseas events held in 2011 and 2012. A number of irregularities in the procurement process were found. Examples are given in the following paragraphs.

(i) *Irregularities in Acceptance of Revised Bid for Evaluation*

107. For the tender for the overseas event held in 2012 (estimated value of \$4.81 million), one of the tenderers was allowed to make price alterations to its bid after the tender had closed. The alterations made by the tenderer were not for correcting any errors. Such alterations are not allowed under the Government procurement procedures.

108. The price alterations were also not disclosed to the tender approving authority to enable the approving authority to make informed decisions.

109. NPTD informed AGO that it would comply with procurement procedures.

(ii) Lack of Assurance of Reasonableness of Prices Paid

110. For the overseas event held in 2011 (\$2.31 million in value), the contractor was to be reimbursed the actual costs it had incurred. There was no requirement for the contractor to obtain competitive bids. The contractor was merely expected to produce supplier invoices as evidence for the reimbursement. In a number of instances, quotations from suppliers and agreements with suppliers without any signature or company seal were produced instead. This indicates that NPTD may not have been charged the actual costs incurred by the contractor. Overall, there is no assurance that what NPTD paid was fair and reasonable, and that it had obtained value for money.

111. AGO's test check showed that, if the contract had specified that the contractor was required to obtain competitive bids, NPTD might have been able to save an estimated \$16,900 (52.8 per cent of the amount paid) for one of the items.

112. NPTD informed AGO that it would review the contract terms for future similar projects to ensure value for money and improve the current processes to ensure that payments are made for valid claims.

(iii) Officers Carrying Out Procurement Functions Not Duly Authorised

113. AGO's test checks revealed a number of instances of officers carrying out procurement functions e.g. tender opening, approving of bid amendments, when they were not duly authorised as required under the Government procurement procedures.

114. NPTD informed AGO that the relevant officers have since been duly authorised by the appropriate authority.

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 takes into account the criteria listed in Appendix II.

3. AGO audited the financial statements of the following three statutory boards for the financial year 2011/12:

- (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, at least once every five to seven years. 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.

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

6. In the financial year 2011/12, AGO carried out selective audits of the following six statutory boards:

- (i) Institute of Southeast Asian Studies
- (ii) National Parks Board
- (iii) Science Centre Board
- (iv) Sentosa Development Corporation
- (v) Singapore Sports Council
- (vi) Singapore Tourism Board

7. 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

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

Selected Observations

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

MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS

SINGAPORE SPORTS COUNCIL

Irregularities in Procurement

10. AGO's test checks of procurement carried out by the Singapore Sports Council (SSC) revealed irregularities. Examples are given in the following paragraphs.

(i) *Weak Grounds for Waiving Competition*

11. During the period from 1 April 2009 to 30 June 2010, SSC awarded 115 contracts through waiver of competition. AGO checked 54 of these contracts and found that for 30 of them (total value \$2.96 million), the reasons given were based on the merits of a preferred supplier, for example, the supplier being the incumbent or a past supplier, the supplier having had good working relationship with SSC or other public agencies, and the supplier having the required track record, expertise or experience. Such reasons do not warrant waiver of competition as there may also be other suppliers who are able to meet SSC's requirements and offer better value for money.

(ii) Not Obtaining Prior Approvals

12. AGO found many instances where the requisite prior approval in the procurement process was not obtained, for example:

- (a) Waiver of competition - Four cases with total value of \$0.43 million;
- (b) Award of contract - 12 contracts with total value of \$2.05 million; and
- (c) Contract variation - One case valued at \$0.17 million or 27.7 per cent of original contract value.

13. This reflects a disregard for the role of an approving authority as a key control to ensure that the principles underlying Government procurement are upheld.

(iii) Acceptance of Tenders Not Meeting Mandatory Requirements

14. AGO's test checks of contracts awarded through limited tenders revealed that in five tenders (total contract value \$0.59 million), the contracts were awarded to tenderers which did not meet one or more of the mandatory requirements specified in the respective tenders.

15. AGO observed that in every one of these cases, the tender recommendation report submitted to the approving authority stated that the tenderer met all the mandatory requirements when this was not the case.

(iv) Incomplete and Incorrect Information Provided to Approving Authorities

16. In addition to the five tenders mentioned above, AGO found two quotations (total contract value \$27,400) where the approving authorities were provided with incomplete or incorrect information for their decision-making.

17. In the first case, the approving authority was wrongly informed that the bidder recommended for award had submitted the lowest quote when it was in fact the second lowest (27.9 per cent higher than the lowest). This second lowest bidder was then awarded the contract.

18. In the second case, the approving authority was informed that three quotations were obtained when, in fact, the procurement officer had only obtained one quotation. In the submission to the approving authority, no details were given with respect to the other two quotations which the procurement officer claimed to have obtained.

19. Approving authorities should be provided with complete and accurate information for decision-making.

(v) Splitting of Purchases

20. AGO's test checks of quotations called by SSC during the period from January 2009 to October 2010 revealed nine cases (with total estimated procurement value of \$0.91 million) where purchases were split into smaller values. For each of the nine cases, the split purchases were for the same or similar goods/services which could be provided by the same supplier.

21. The splitting of purchases is disallowed under Government procurement rules as it bypasses the stricter controls imposed on higher value purchases, for example, requiring the calling of open tenders and higher authority for the approval of awards.

(vi) Lapses in Allowing Price Revision and in Evaluation of Bids

22. SSC called an open quotation to purchase marketing services for an event. Six companies submitted bids. AGO noted that the evaluation of bids was not carried out in a systematic and structured manner against the criteria specified in SSC's invitation to quote (as required by the Government procurement procedures). SSC shortlisted three of the six bidders based on "general review of the proposals submitted" without using specific criteria. The final evaluation of the three shortlisted bids was also not done in a systematic and structured manner; the evaluation report only described each bidder's strengths and weaknesses which related to some but not all the specified evaluation criteria.

23. The second lowest bidder was allowed to reduce its bid price from \$90,000 to \$70,000 thus making it the lowest bid. This bidder was eventually awarded the contract at the revised price. There was no documentation on what was communicated between SSC and the bidder, and the reasons for allowing revision of the bid price.

24. In response to AGO's findings, SSC informed AGO that it would be implementing corrective actions to address the lapses and it would centralise its procurement activities. The procurement value chain would be rationalised and standard operating procedures upgraded to ensure compliance. SSC would also introduce mandatory procurement training for its procurement officers and enhance its induction programme to ensure that relevant officers are conversant with procurement regulations.

Lapses in Selection of Firms for Audit Shared Services Scheme

25. Arising from a complaint, AGO audited the "request for proposal" (RFP) called by SSC to select a panel of audit firms for its Audit Shared Services Scheme for the period from January 2010 to March 2012. The initial contract period was from 1 January 2010 to 31 March 2011, with an option to extend it by 12 months. Under this Scheme, SSC provides audit fee subsidies to National Sports Associations (NSAs) for compliance audits² carried out by these firms.

26. AGO observed lapses in SSC's evaluation of the bids received in the RFP. The lapses include the following:

- (a) Seven proposals were received of which five were incomplete. Four of the incomplete proposals were not disqualified and three of these firms were then appointed to SSC's panel of auditors. This was contrary to SSC's instructions in the RFP which stated that incomplete proposals shall be disqualified.
- (b) The evaluation criteria were spelt out in the RFP. However, SSC did not use one of them when evaluating the proposals, namely "quality of the service proposed".

² Audit on the use of SSC grants and compliance with SSC's financial regulations for NSAs.

- (c) The evaluation was not based on a like-for-like comparison as the prices quoted were not adjusted to take into account the differences in scope of services proposed by the audit firms.
- (d) SSC evaluated the proposals based on the prices quoted for the optional 12-month extension period without considering the prices quoted for the initial 15-month contract period.
- (e) The approving authority for the selection of audit firms to the panel was not provided with complete and accurate information. For example, both the evaluation report and the recommendation report wrongly stated that all the proposals, with the exception of one, were complete when in fact five proposals were incomplete. Also, in both reports, the fees stated were not those for the initial contract period of 15 months but for the optional 12-month extension period.

27. The Memorandum of Understanding signed between SSC and each of the audit firms required the firms to charge fees that “shall not deviate significantly from” the fees they had quoted in response to the RFP. The NSAs were not informed of this nor of the fees the firms had quoted to SSC. AGO found that 40.9 per cent of the NSAs which appointed audit firms under this Scheme for their financial year 2010 audits were charged significantly more (31.6 to 88.1 per cent) than the fees quoted to SSC. The objective of the RFP exercise to select audit firms, i.e. getting fair and competitive prices for the benefit of the NSAs, was therefore not fully realised.

28. SSC informed AGO that it would take the necessary actions to address the lapses, including tightening of the evaluation process. SSC also indicated that for the latest RFP called for the period from April 2012 to March 2014, the fees quoted in the audit firms’ proposals to SSC have been conveyed to the NSAs.

MINISTRY OF EDUCATION

INSTITUTE OF SOUTHEAST ASIAN STUDIES

Irregularities in Procurement

29. AGO carried out test checks on purchases made by the Institute of Southeast Asian Studies (ISEAS) for the period from April 2010 to October 2011. During this period, there were 305 purchases (total value \$3.57 million) whose individual value exceeded \$3,000³. AGO's test checks of these purchases revealed many instances where the Government procurement principles of transparency, open and fair competition and value for money are not upheld. Examples of the irregularities are in the following paragraphs.

(i) Most Purchases Not Procured through Open Quotations/Tenders

30. AGO's checks revealed that 216 (70.8 per cent with total value \$2.46 million) of the 305 purchases were made without competition or through limited quotations. The reasons include:

- (a) The supplier having proven track record;
- (b) The supplier being familiar with ISEAS' requirements; and
- (c) The supplier being one of the past suppliers.

31. These reasons do not justify departure from Government procurement rules which require open quotations/tenders to be called for such purchases. AGO's test checks also found that there were 12 suppliers who were awarded contracts for the same services continuously for 4 to 14 years without open quotations/tenders being called.

³ Government procurement rules require open quotation/tender to be called for purchases above \$3,000.

(ii) Shortlisting of Suppliers Not Done through Competitive Process

32. Of the 216 purchases mentioned above, 46 purchases amounting to \$236,900 were for printing and binding services.

33. For these printing and binding services, ISEAS made the purchases from a pool of selected suppliers. AGO noted that these suppliers were not selected through an open and competitive process. They were suppliers that had past dealings with ISEAS or had introduced their services to ISEAS. Such arbitrary selection of suppliers is not in line with Government procurement principles of transparency, fair and open competition and value for money.

(iii) Purchases Not Done through GeBIZ

34. AGO also noted that contrary to Government procurement rules, ISEAS did not use the electronic Government-wide procurement system, GeBIZ, for most of its purchases. ISEAS had thus not availed itself of the benefits of using GeBIZ, which include, inter alia, a facility to invite open quotation/tender, built-in controls to safeguard confidentiality of bids until quotation/tender closing date, and documentation trails to enhance transparency.

(iv) Procuring Outside Established Demand Aggregation Contracts Without Justification

35. There are several demand aggregation (DA) contracts which public sector agencies could use when purchasing certain common goods and services. Government procurement rules require agencies to highlight to the approving authority if there are relevant DA contracts available and to provide justification if a DA contract is not used.

36. AGO's test checks revealed 37 purchases with a total value of \$226,000 in which ISEAS did not use the applicable DA contract. For these purchases, there was no documentary evidence that the approving authorities were informed of the reason why an available DA contract was not used. AGO's test checks found that for 13 items of stationery and consumables purchased, ISEAS had paid prices which were 3.3 to 211.1 per cent higher than the prices under the relevant DA contracts.

37. ISEAS informed AGO that it has since started calling open quotations/tenders through GeBIZ and would ensure that Government procurement rules are followed.

Weaknesses in Control of Vouchers

38. AGO's test checks of gift and taxi vouchers purchased by ISEAS revealed weaknesses in the control over their use. Vouchers worth \$26,800 were purchased for use in a research project as tokens of appreciation to survey participants and for official travel by the project team members. The project was funded from a grant.

39. AGO observed that no records were kept of the stock and usage of the vouchers. Claim statements or receipts were not required for using taxi vouchers and acknowledgement was not required for issuing the gift vouchers. AGO also found that excess vouchers were used for other purposes without the requisite approval.

40. Without proper documentation and records, there is no assurance that the vouchers were used only for authorised purposes and that there was no wastage of funds due to loss or expiry of vouchers.

41. ISEAS informed AGO that measures were being taken to ensure that proper records are kept and proper procedures are followed in future.

SCIENCE CENTRE BOARD

Irregularities in Procurement

42. AGO's test checks of procurement carried out by the Science Centre Board (SCB) revealed irregularities. Examples are given in the following paragraphs.

(i) Weak Grounds for Waiving Competition

43. During the period from 1 April 2010 to 30 June 2011, SCB awarded 133 contracts through waiver of competition. AGO checked 32 of these contracts and found that for eight of them (total value \$0.72 million), the reasons given were based on the merits of a preferred supplier e.g. the suppliers being the incumbent or a past supplier, and the supplier being able to meet SCB's requirements. Such reasons do not warrant waiver of competition as there may also be other suppliers who are able to meet SCB's requirements and offer better value for money.

(ii) Not Obtaining Prior Approvals

44. AGO found many instances where the requisite prior approval in the procurement process was not obtained, for example:

- (a) Ten cases (total value \$1.04 million) of waiver of competition and award of contract without prior approval; and
- (b) One case of approval for budget obtained after incurring expenditure (value \$0.13 million).

45. This reflects a disregard for the role of approving authority as a key control to ensure that the principles underlying Government procurement are upheld.

(iii) Splitting of Purchases

46. AGO's test checks of quotations called by SCB during the period from April 2009 to September 2011 revealed two cases (total value \$0.23 million) where the purchases were split into smaller values. For both cases, the split purchases were for similar services, which could be provided by the same supplier.

47. The splitting of purchases is disallowed under Government procurement rules as it bypasses the stricter controls imposed on higher value purchases, for example, requiring the calling of open tenders and higher authority for the approval of awards.

(iv) Breaking a Procurement Rule to Circumvent Another

48. AGO found indications of breach of a Government procurement rule to avoid another rule requiring the calling of tender. SCB called a quotation for fabrication and installation works for an exhibition and received two bids, with the lower bid at \$93,800. As this exceeds the cap for procurement by quotation, tender would need to be called. However, SCB continued with the quotation exercise by excluding some items from the original scope of works and asked the lower bidder to re-quote, an act which contravenes the Government procurement rule. The revised bid was accepted by SCB. Shortly thereafter, SCB called a quotation for the items that were removed. For both quotations, the successful bidder was the same supplier.

(v) Lapses in Allowing Price Revision and in Evaluation of Bids

49. AGO's test checks revealed lapses in SCB's handling of bids received, as described below:

- (a) In the second quotation called for the removed items mentioned in paragraph 48, SCB received three bids. After the quotation had closed, SCB allowed the highest bidder, which was also the successful bidder for the first quotation, to change its bid. The bid price was reduced by 26.3 per cent to \$14,450. This bidder was then awarded the contract. Such action is unfair to the other bidders.
- (b) In another case, SCB awarded a tender (value \$0.81 million) to a tenderer that did not meet the financial capability criterion, which was stated as a critical criterion. The certificate⁴ submitted by the tenderer as proof of financial capability had expired more than three years earlier.

50. SCB informed AGO that it has since implemented several measures to improve its procurement procedures and would continue to enhance its procedures. It would ensure that Government procurement rules and principles are complied with.

⁴ This refers to the certificate issued by a Unit of the Ministry of Finance which registers suppliers wishing to submit bids for public sector contracts (except suppliers of construction and engineering works which are registered with the Building and Construction Authority).

MINISTRY OF FINANCE

ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

Lapses in Access Controls

51. The Accounting and Corporate Regulatory Authority (ACRA) uses the Government Electronic Business (GeBIZ) system for procuring goods and services.

52. AGO's review of access controls over GeBIZ by ACRA revealed the following lapses:

- (a) System logs capturing the activities of the GeBIZ Administrator were not reviewed. The absence of an independent review on the activities of the GeBIZ Administrator gives rise to the risk that irregularities may not be detected, thereby compromising system security.
- (b) The GeBIZ Administrator was also assigned operational roles in GeBIZ. As the GeBIZ Administrator has powerful access rights (including the right to create user accounts and modify access rights to these accounts), there is the risk of unauthorized activities which can be mitigated by segregating the duties of the GeBIZ Administrator and operational users. This risk is further compounded by the absence of an independent review on the activities of the GeBIZ Administrator (see point (a) above).
- (c) There was no evidence that ACRA had conducted periodic reviews of users' access rights in GeBIZ. Government instructions require such periodic reviews to be carried out.
- (d) There was no documentation to show that approval had been given for the creation, update and deletion of GeBIZ user accounts as well as the roles and privileges assigned to the accounts. Such documentation is essential to ensure that access to GeBIZ is controlled and granted on a need basis.

53. ACRA informed AGO that measures would be taken to address the above control weaknesses. These measures include reviewing the GeBIZ Administrator's activities and users' access rights and enhancing the process of documenting the creation and deletion of accounts.

Weaknesses in Controls over Refunds

54. Applications to ACRA for refunds (arising from overpayment of fees or appeals for reduction or waiver of fines and penalties) are processed and approved via the Electronic Business and Company Registration System (eBizcore). ACRA's procedure requires that the duties of processing and approving refund applications be segregated and performed by two different officers.

55. AGO observed that selected officers were granted access rights to eBizcore allowing them to process and also to approve a refund in the system. As there was no built-in system check in eBizcore to prevent an officer from approving a refund which he had processed, the requirement for segregation of duties could be circumvented.

56. To effectively mitigate the risk of unauthorised refunds, system controls should be put in place to prevent an officer from approving a refund which he had processed.

57. ACRA informed AGO that it would take AGO's recommendations into account when developing the new system to replace eBizcore (targeted to complete in June 2014). In the interim, ACRA reviewed and implemented an additional check by its Finance Division to verify that the refund is processed and approved by different officers before making payment.

INLAND REVENUE AUTHORITY OF SINGAPORE

IT Control Weaknesses in Stamp Duty System

58. The Inland Revenue Authority of Singapore (IRAS) operates an E-Stamping system to assess and collect stamp duties, and to issue stamp certificates. The system is maintained by IT vendors engaged by IRAS. AGO's test checks revealed several control weaknesses in the E-Stamping system. Examples are in the following paragraphs.

(i) Excessive Access Rights Granted to Users and Vendor

59. Seven IRAS officers continued to have access rights to administer user accounts when they no longer needed such rights following changes in their job responsibilities.

60. The database administrator (account held by IRAS' vendor) was given access rights to edit the system audit logs when his responsibility does not require him to do so. The resulting risk is significant as the access rights may be misused to prevent detection of unauthorised activities carried out in the system.

61. Access rights not granted on the basis of need, or not withdrawn when such need no longer exists, is contrary to IRAS' IT security policy.

(ii) Activities of Privileged Users Not Reviewed

62. The Government's Infocomm Security Best Practices recommend periodic reviews to ensure that activities performed by privileged users are authorised and legitimate. AGO observed that there was no review of activities performed by nine privileged users comprising five IRAS officers and four vendor staff. The nine users were granted access rights to administer user accounts. The five IRAS officers were also granted access rights to create and edit stamp duty calculation rules and exempt payment of stamp duty in the system. Two of them were also able to modify GIRO records in the system.

(iii) Unauthorised Network Access to Server

63. AGO's review of the system logs for the period from April to October 2011 revealed eight instances of unauthorised access into one of the system servers through the Internet. Following AGO's audit, IRAS carried out an investigation and found that the unauthorised access originated from a test system and was a result of a misconfiguration at the network firewalls.

64. IRAS informed AGO that it has since checked and ascertained that there had not been any unauthorised creations or modifications of user accounts by the seven officers (mentioned in paragraph 59) during the affected period. There were also no unauthorised changes made to GIRO records by the two IRAS officers (mentioned in paragraph 62) since the launch of the new E-Stamping system. IRAS also informed AGO that it has since taken actions to address AGO's observations. The measures taken include removing excessive access rights from the affected accounts, establishing procedures to govern the activities of privileged users in the system and rectifying the misconfiguration at the network firewalls.

MINISTRY OF MANPOWER

SINGAPORE WORKFORCE DEVELOPMENT AGENCY

Lapses in Procurement of Training Services

65. Arising from a complaint, AGO carried out an audit on the procurement of training services by the Workforce Development Agency (WDA) for a module under its Security Workforce Skills Qualifications (WSQ) Framework. WDA had called an open Request for Proposal (RFP)⁵ in 2010 for these services and received proposals from four vendors. The contract with an estimated value of \$543,000 was awarded to one of these vendors. AGO found many lapses in this procurement. Examples are given in the following paragraphs.

⁵ An RFP is a procurement approach to communicate outcome-based requirements; and the proposal that most closely fits the needs and budget is selected. The principles and procedures for procurement by tender also apply to RFPs.

(i) No Assurance that Process of Obtaining Revised Bids is Fair

66. WDA informed AGO that after the RFP had closed, it contacted all four vendors (by phone) to “clarify” the scope of services proposed and as a result, three of the vendors revised their bid prices.

67. There was no documentation of the nature of the “clarification” except for an email from WDA asking one bidder (“Vendor A”) to omit one of the requirements in the scope of service specified in the RFP. There was no evidence that the other three bidders were asked to do the same. Their bids evaluated by WDA included the requirement which Vendor A was asked to omit. Vendor A was awarded the contract at its revised price.

(ii) Not Disclosing Pertinent Information to Approving Authority

68. AGO found that the report submitted to the tender approving authority presented the revised prices of the bidders without indicating that those were revised prices. Neither did the report disclose that Vendor A’s bid was based on a reduced scope of work. The tender approving authority accepted the recommendation to award the contract to Vendor A.

69. To enable an approving authority to make informed decisions, the report to the authority must not withhold pertinent information.

(iii) Wrongful Use of Negotiation

70. Following the approval of contract award by the tender approving authority, WDA negotiated with Vendor A to further reduce its price. The Government procurement procedures do not allow negotiation for open RFP. Such a practice is prone to abuse.

71. The above lapses indicate a lack of fairness and transparency in the procurement process. There is also no assurance that value for money was achieved in the procurement.

72. WDA informed AGO that its focus in the appointment of training providers is to safeguard the interests of the trainees and the companies that send their staff for training. Hence, the quality of the training provider, its track record, as well as its financial stability are of primary importance; as it is the trainees who are most affected when the quality and continuity of the training is compromised. WDA agrees with AGO on the need for the process to comply with the principles of fairness and transparency. It has since reviewed and substantially enhanced its standard operating procedure in the appointment of such training providers.

MINISTRY OF NATIONAL DEVELOPMENT

NATIONAL PARKS BOARD

Lapses in Procurement

73. AGO's test checks of the National Parks Board (NParks)'s procurement revealed a number of lapses as described below.

(i) Lapses in Procurement for Parks Development Projects

74. In NParks' procurement for its parks development projects, the following observations were made:

- (a) Nine tenders (total value \$69.42 million) were approved by the wrong approving authority.
- (b) In one project, 14 variation works were carried out, and paid for, without the required approval for execution.
- (c) A contractor was granted several extensions of time to complete a project for reasons outside those provided for under the contract. Liquidated damages should have been imposed instead especially when the project took eight months to complete instead of the three months specified in the contract. The liquidated damages forgone was \$45,000.

75. NParks informed AGO that it has since introduced a process to check that tender submissions are properly approved. Selective checks would be carried out on variation orders to ensure that approvals have been given in accordance with contractual terms and conditions.

(ii) Splitting of Purchases

76. Government procurement rules stipulate that purchases must not be split to avoid complying with rules applicable to higher value purchases. AGO made the following observations in its test check of purchases made by NParks during the period from April 2009 to October 2011:

- (a) There were five pairs of purchases (total value \$571,800), each pair being purchases for similar goods or services made on the same day and supplied to the same location. The purchases had been split to keep the value of each purchase below the threshold of \$70,000 beyond which tenders had to be called.
- (b) There were 15 purchases, each with estimated procurement value below \$70,000 (total value \$504,900) which fall neatly into six groups/pairs that could have been aggregated. Each group/pair comprised the same or similar goods/services purchased within a short period of time (4 to 14 days). The purchases in respect of some of the groups/pairs were requested by the same officer or on the same day.
- (c) There was evidence that 144 purchases, each below \$3,000 in value, were split purchases. For example, three purchase orders (with values \$2,990, \$2,997 and \$2,950) for the printing of brochures were issued to the same vendor on the same day. Had the purchases not been split, quotations would need to be called as the threshold value of \$3,000 was exceeded.

77. According to NParks, the separate purchases were made because of operational reasons and inadequate planning, and it did not find any fraudulent activities. Nevertheless, NParks would be working with its operating divisions to identify common services and aggregate them for the purpose of procurement.

Performance Not Adequately Taken into Account in Payment to Contractors

78. NParks engages contractors to maintain and manage parks and streetscapes. AGO's test checks revealed the following weaknesses in the monitoring of the contractors' performance which have impact on payment:

- (a) Under the contracts, the monthly payment to contractors may be reduced for unsatisfactory performance. However, NParks' monitoring and assessment of the performance of contractors have not been effective. Firstly, the performance assessment form used by NParks did not cover 29 of the 75 requirements specified in the contract. Secondly, the system for the selection of turfed areas for checks was not adequate. As a result, many areas were not checked for several months. For example, for one grass-cutting contract, AGO observed that the turfed areas along 618 out of 898 roads (68.8 per cent) were not checked over an eight-month period from March to October 2011.
- (b) The contracts provide for imposition of liquidated damages under specified conditions, for example, not displaying adequate warning signs to public when using rotary blade grass-cutters and leaving behind used nylon cords after grass-cutting works. However, most of the specified conditions were not included in the performance assessment form used by NParks. There was therefore no effective system to detect infringements for which liquidated damages could be imposed.

79. NParks explained that its schedule of site inspections was prioritised based on impact on the community, and hence remote sites were inspected less frequently. NParks informed AGO that it would be reviewing the assessment form to ensure consistency with the contract specifications and the form would include the list of infringements specified in the contract so that they would not be overlooked.

MINISTRY OF THE ENVIRONMENT AND WATER RESOURCES

NATIONAL ENVIRONMENT AGENCY

Poor Management of Street Cleansing Contracts

80. Following a complaint, AGO carried out test checks on five ongoing street cleansing contracts⁶ (total value \$166.37 million) managed by the National Environment Agency (NEA). AGO found high rates of non-compliance with the contract specifications by the contractors pointing to inadequacies in the management of these contracts. Details of AGO's observations are in the following paragraphs.

(i) Cleansing Works Not Carried Out

81. Under the contracts, street cleansing is to be carried out at stipulated time periods of the day. AGO carried out checks covering these periods at 225 locations and found that the cleansing workers did not show up at 190 (84.4 per cent) locations. AGO extended its checks by two hours at 68 of the locations, and observed that the cleansing workers still did not show up at 67 (98.5 per cent) locations.

82. For three overhead bridges where daily cleansing is to be done, there was no sign of cleansing works having been carried out over the three days when inspection was done by AGO.

(ii) Unsatisfactory Performance

83. At another 39 locations, AGO observed substandard work at 15 locations (38.5 per cent). For example, a road kerb area remained littered even after being "swept" by a mechanical road sweeper.

⁶ These contracts were awarded between 2008 and 2009.

(iii) Shortcomings in Enforcement

84. AGO also observed the following shortcomings in NEA's inspections and follow-up on unsatisfactory works it detected:

- (a) Records of inspections carried out were incomplete. For example, 21 out of 34 "Defect Notices" did not record the results of NEA's inspection of rectification works by the contractors (which has implications on penalties to be meted out); and
- (b) Penalties for not meeting performance standards were not imposed in accordance with the contract terms. For example, penalties imposed were incorrectly based on the number of "Defect Notices" served instead of the number of defects detected.

(iv) Errors in Pricing and Payment to Contractors

85. Under the street cleansing contracts, payment is made based on the road lengths stated in the contracts. The road lengths were measured manually using odometers and road rollers. AGO found that the lengths stated in the contract for 3,097 roads (95.3 per cent of the roads covered by the contracts) were different from the road length data in NEA's Geographical Information System (GIS). NEA re-measured on site 19 of the 3,097 roads whose length stated in the contracts differed the most from that in the GIS. It was found that the road lengths stated in the contracts for these 19 roads were inaccurate resulting in overpayment (\$2,742 per month) for 11 of the roads and underpayment (\$1,664 per month) for eight of the roads.

86. AGO also observed that NEA had overpaid the cleansing contractors by a total of \$9,900 comprising:

- (a) \$6,887 for the cleansing of five roads (or parts thereof) that no longer existed, having been converted to pavement or closed; and
- (b) \$3,013 due to errors in the road lengths used to compute payment.

87. AGO also found that NEA had underpaid the contractors for the emptying and cleansing of litter bins arising from the wrong basis (e.g. wrong rates and method) being used for payment computation. The amount of underpayment was \$44,052.

88. NEA informed AGO that based on its current resources, NEA carries out audits on 20 per cent of the work done each week taking into account public feedback. With NEA's formation of the "Department of Public Cleanliness" to take charge of all public cleansing works outside Town Council areas with effect from April 2012, NEA would strengthen and enhance its regime of checks to ensure cleansing works are carried out in accordance with contract requirements. This would be done based on site inspections by its officers and leveraging on technology, including the GIS, to ensure closer monitoring of contractors' performance and keeping track of any changes to the road lengths.

PUBLIC UTILITIES BOARD

Lapses in Procurement

89. AGO's test checks of the Public Utilities Board (PUB)'s procurement revealed split purchases and potential for aggregating purchases as described below.

(i) Splitting of Purchases

90. The Government procurement rules require tenders to be called if the estimated value of the purchase exceeds \$70,000. The rules specifically prohibit the splitting of a purchase to avoid the more stringent requirements imposed on higher value purchases.

91. AGO's test checks of purchases made by PUB during the period from April 2009 to June 2011 revealed 14 split purchases made through quotations, when these purchases should have been six higher value purchases made through tenders. For each group of purchases that had been split, the requests for the purchases were made by one officer and the invitations to quote were issued on the same day. In addition, the goods or services were obtained from one supplier.

92. PUB explained that the purchases were not deliberately split to avoid complying with requirements pertaining to higher value purchases. The separate purchases were made because of operational exigencies and urgent needs, and the goods or services purchased were of different nature and could have been supplied by different suppliers.

93. AGO noted PUB's explanation but observed that the Purchase Orders were issued between 16 and 42 days after the quotations were called even though PUB explained that the purchases were due to urgent needs.

94. PUB informed AGO that it has since strengthened controls on purchases by putting in place a process for handling urgent ad hoc purchases, and would consider appointing term contractors for urgent repairs of critical components in PUB's installations.

(ii) Potential for Aggregating Purchases

95. AGO observed that PUB purchased chemicals on a regular basis for the treatment of water at its NEWater plants. During the two-year period from May 2009 to April 2011, PUB made 13 separate purchases of anti-scalant chemicals (the estimated procurement value for each purchase was stated as \$70,000). In AGO's view, there is potential for aggregating such requirements to reap economies of scale and for administrative efficiency.

96. PUB agreed to aggregate similar requirements for purchase wherever practicable.

MINISTRY OF TRADE AND INDUSTRY

SENTOSA DEVELOPMENT CORPORATION

Lapses in Procurement

97. The Sentosa Development Corporation (SDC) conducted a two-stage tender exercise for a project to redevelop an area on Sentosa into a recreational destination for families and young children. In Stage One of the tender exercise, four companies were shortlisted and subsequently all four submitted their bids in Stage Two of the exercise.

98. AGO's test checks of the procurement for this project revealed a number of lapses as described below.

(i) Bids Not Evaluated Based on Specified Method

99. The tender documents for Stage Two stated that the bids received would be evaluated using a Price-Quality Method where price and quality criteria would be assigned weightings and scores. The combined score would determine the best offer to be selected for award.

100. The prices of the four bids received ranged from \$9.19 million to \$10.95 million. AGO observed that SDC did not evaluate the bids based on the specified Price-Quality Method. Instead, SDC accepted one of the bids (the lowest bid) on the basis that it included a "themed design proposal" while the other bids did not.

101. AGO observed that a "themed design proposal" was not stated as a requirement in the tender documents. Therefore, eliminating a bid based on the absence of a "theme design proposal" is unfair. It is also not proper to eliminate any bid without evaluating the bids received using the specified method of evaluation. This is a breach of the Government procurement principles of fairness and transparency.

(ii) Prior Approval Not Sought for Variation Works

102. In the same project, AGO also noted that SDC requested the contractor to proceed with various variation works (total value \$1.12 million) before obtaining the requisite approval.

103. SDC explained that it had proceeded with the variation works “in parallel to securing” approval from the approving authority to ensure that the construction deadline was met.

104. For proper control, it is important that approval is obtained before requesting the contractor to proceed with variation works. Not doing so undermines the role of the approving authority in ensuring that the works are justified.

Lapses in Control over Sale of Tickets

105. In the financial year 2010/11, SDC collected \$61.90 million from admission fees and packages.

106. SDC issues contactless smartcard tickets for admission to Sentosa and its attractions. Ticket sales and admission are handled via a fully integrated computerised system. To ensure that there is no loss of revenue, all tickets printed by the system must be accounted for and reconciled to ticket sales collections.

107. AGO’s audit revealed several lapses in the control over the sale of tickets. The key observations are described below.

(i) Cancelled Bulk Sale Tickets Not Accounted for

108. AGO observed that for bulk sale tickets⁷, there was no segregation of duties in respect of the custody of printed tickets, destruction of cancelled tickets and reconciliation of the printed tickets with those sold or destroyed. AGO’s test checks revealed that 557 cancelled bulk sale tickets (total value \$3,915) could not be accounted for, i.e. there was no record of their destruction.

⁷ Bulk sale tickets are tickets printed in bulk for sale to customers such as tour agents and are valid for six months.

109. AGO also found that 2,661 cancelled bulk sale tickets (total value \$58,993) were not promptly destroyed on a monthly basis, as required by SDC's standard operating procedures.

(ii) Voided Tickets Found to have been Used

110. AGO observed that when a ticket printed for sale had to be voided (e.g. because the wrong type of ticket was printed), the system did not invalidate the ticket to prevent it from being used (i.e. the ticket could still be used to gain entry). AGO's test checks revealed that 66 voided tickets (total value \$659) were used to gain admission into Sentosa and/or its attractions.

111. Although the number of such tickets discovered through AGO's test checks is small in relation to SDC's total ticket sales, the lapse in internal controls could lead to abuse and loss of revenue to SDC.

112. AGO also observed instances where important information such as the serial numbers of voided tickets were not captured by the ticketing system. Such information is necessary to facilitate sales reconciliation.

113. AGO recommended that SDC carry out a review of the ticketing system to ensure that all tickets printed and revenue from ticket sales are properly accounted for.

114. SDC informed AGO that it would implement measures to address the control lapses.

SINGAPORE TOURISM BOARD

Weaknesses in Management of Artefacts

115. The Singapore Tourism Board (STB) owns over 50,000 pieces of artefacts from the cargo of a Tang-era shipwreck with a book value of \$26.40 million as at 31 March 2011. The artefacts are kept in two storage facilities.

116. AGO's test checks revealed a number of weaknesses in the management of the artefacts, including the following:

- (a) There was no segregation of duties as the STB officer responsible for maintaining records of the artefacts could access the storage facilities.
- (b) Physical access controls to the storage facilities were ineffective. Among other things, controls to prevent a single officer from accessing a storage facility could be overridden by the same STB officer in (a) above. As a result, the STB officer could singly have access to and remove the artefacts.
- (c) Access controls over the software used for maintaining the records of the artefacts were not enabled. There were also no independent checks carried out on the changes made to the records.
- (d) There was no requirement for periodic stock-take of the artefacts.

117. AGO recommended that STB carry out a fundamental review of the security system and procedures to ensure that the multi-million dollar artefacts are effectively safeguarded.

118. STB agreed that it is imperative to ensure that the artefacts are effectively safeguarded. STB informed AGO that it has since reviewed the security system and procedures. Control measures have been immediately implemented for critical risk areas and other gaps have been identified for further review.

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 2011/12 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 2010 under section 4(1)(b) of the Audit Act.

3. The ASEAN Cultural Fund (Singapore) accounts for the financial year 2011 were audited by the Auditor-General as required under an ASEAN agreement.

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

Acknowledgements

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

APPENDICES

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APPENDIX I : AGO'S AUDIT AUTHORITY

Audit of Government Ministries, Organs of State and Government Funds

1. Under *Article 148F(3)* of the Constitution of the Republic of Singapore (1999 Revised Edition), it is the duty of the Auditor-General to audit and report on the accounts of all departments and offices of the Government, the Public Service Commission, the Legal Service Commission, the Supreme Court, 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.”

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, 2012 Revised Edition).

6. *Section 8(3)* of the Audit Act states that “Subject to subsection (4)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, 2012 Revised Edition) and any other written law relating to moneys or stores subject to his audit have been in all respects complied with.

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

8. Specifically, an audit under *section 5(c)* of the Audit Act would require checks to ensure compliance with, inter alia, provisions of the Financial Procedure Act including the Financial Regulations (Cap. 109, Rg 1). In assessing compliance with the Financial Regulations, AGO would check whether Government ministries and organs of state have in place precautions against, inter alia, negligence⁵ and measures to detect apparent extravagance⁶. 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 authority⁷ 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;

⁵ Regulation 3(e) of the Financial Regulations.

⁶ Regulation 3(f) of the Financial Regulations.

⁷ The definition of “public authority” includes statutory boards.

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

Selective Audit

12. For statutory boards whose financial statements are audited by commercial auditors, AGO carries out selective audits in rotation. The authority for selective audits of statutory boards is provided for under a Ministry of Finance (MOF) Circular Minute⁸, read with *section 4(4)*⁹ 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.

⁸ 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.

⁹ *Section 4(4)* of the Audit Act states that “Notwithstanding the provisions of any written law relating to the accounts and audit of any public authority, the Minister may, if he is satisfied that the public interest so requires, direct that the accounts of such authority shall be audited by the Auditor-General.”

Powers of Auditor-General

15. *Section 6* of the Audit Act provides powers to the Auditor-General for him to carry out his audits. The Auditor-General 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.

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

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

Application Notes:

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

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

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

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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