



Auditor-General's Office
Singapore

Audit of Aljunied-Hougang-Punggol East Town Council

Main Report

6 February 2015

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1 ABOUT THE AUDIT

Audit Authority

- 1.1 The Minister for Finance, on 19 February 2014, directed the Auditor-General under section 4(4) of the Audit Act to carry out an audit of the Aljunied-Hougang-Punggol East Town Council (AHPETC)'s Financial Year (FY) 2012/13 accounts, records and books according to the terms of reference as stated below (see **Annex A** for the Minister's full directive).

Terms of Reference

- 1.2 The terms of reference set out in the Directive were as follows:

- “(1) Pursuant to section 5 of the Audit Act, to make such examination as the Auditor-General may consider necessary to ascertain whether, for FY 2012/13, all reasonable steps have been taken by AHPETC to:
- (i) Safeguard the collection and custody of AHPETC's moneys;
 - (ii) Ensure that issues and payments of AHPETC's moneys were made in accordance with proper authority and payments were properly chargeable and are supported by sufficient vouchers or proof of payment; and
 - (iii) Ensure that the provisions of any written law relating to AHPETC's moneys, including but not limited to the Town Councils Act and Town Councils Financial Rules, were in all respects complied with.
- (2) In addition, to make such examination and evaluation as the Auditor-General may consider necessary to:
- (i) Investigate the causes of the Disclaimer of Opinion by M/s Foo Kon Tan Grant Thornton LLP in their independent auditor's report for FY 2012/13; and
 - (ii) Ascertain the reliability and accuracy of AHPETC's financial management and accounting processes and systems, and to ascertain and understand AHPETC's accounts.”

Audit Approach

- 1.3 In carrying out the audit, the Auditor-General's Office (AGO) interviewed AHPETC staff and other external parties, and also examined records, files, reports and other documents obtained from the relevant parties. The external parties whom AGO approached for information and documents included the auditor Foo Kon Tan Grant Thornton LLP (FKT), the former managing agent CPG Facilities Management Pte Ltd

(CPGFM), and ministries and statutory boards such as the Ministry of National Development (MND), the Housing and Development Board (HDB) and the Inland Revenue Authority of Singapore (IRAS).

- 1.4 The Auditor-General also engaged PricewaterhouseCoopers Consulting Pte Ltd (PwC) to review selected areas of AHPETC's accounts. PwC's review complements the audit work of the team from AGO.

2 **BACKGROUND**

Constitution & Reconstitution of Town Council

- 2.1 Following the General Election on 7 May 2011, the Aljunied-Hougang Town Council (AHTC) was formed on 27 May 2011 with the merger of Hougang Town Council and Aljunied Town Council.
- 2.2 AHTC was subsequently reconstituted as AHPETC with effect from 22 Feb 2013, following the by-election for Punggol East Single Member Constituency.

Auditor's Reports for FY 2011/12 and FY 2012/13

- 2.3 The financial statements of AHTC for FY 2011/12 and AHPETC for FY 2012/13 were audited by FKT. The key items in the published financial statements are as follows:

	FY 2011/12	FY 2012/13
Total Assets	\$101,572,151	\$104,386,059
Total Liabilities	\$6,964,720	\$14,553,486
Operating Income	\$28,682,516	\$29,826,156
Operating Expenditure	\$32,079,316	\$35,056,941
Surplus for the Year	\$1,104,388	(\$733,918)

- 2.4 For both the financial statements, FKT was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. For the FY 2011/12 financial statements, FKT issued a disclaimer of opinion, listing four areas as the basis for its disclaimer. For FY 2012/13, FKT also issued a disclaimer of opinion on AHPETC's financial statements, listing 13 areas as the basis for its disclaimer (see **Annex B** for details on FKT's disclaimers for FY 2012/13). Three of the four disclaimer areas for FY 2011/12 financial statements were related to the disclaimer areas reported for FY 2012/13 (see **Annex C** for details on FKT's disclaimers for FY 2011/12).

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3 OVERVIEW OF AUDITOR-GENERAL'S OBSERVATIONS

- 3.1 The Auditor-General's Office (AGO) found that AHPETC had several lapses in governance and compliance with the Town Councils Act and Town Councils Financial Rules.
- 3.2 The major lapses include the following:
- (a) failure to transfer monies into the sinking fund bank accounts as required by the Town Councils Financial Rules;
 - (b) inadequate oversight of related party transactions involving ownership interests of key officers, hence risking the integrity of such payments;
 - (c) not having a system to monitor arrears of conservancy and service charges accurately and hence there is no assurance that arrears are properly managed;
 - (d) poor internal controls, hence risking the loss of valuables, unnecessary expenditure as well as wrong payments for goods and services; and
 - (e) no proper system to ensure that documents were safeguarded and proper accounts and records were kept as required by the Town Councils Act.
- 3.3 Unless the weaknesses are addressed, there can be no assurance that AHPETC's financial statements are accurate and reliable and that public funds are properly spent, accounted for and managed.

Lapses in Management of Sinking Funds

- 3.4 Sinking funds are required to be separately maintained by Town Councils for the improvement to and long-term maintenance of properties.
- 3.5 AHPETC had not complied with the Town Councils Financial Rules. It failed to make the required transfers to sinking fund bank accounts for the last three quarters of FY 2011/12. AHPETC did make some transfers for FY 2012/13 but these were late and short of the required amounts. In most instances, the transfers were only made after auditors' queries.
- 3.6 In addition, there were other instances of non-compliance with the Town Councils Act involving wrong use of monies in sinking fund bank accounts.

Lapses in Governance of Related Party Transactions

- 3.7 AHPETC did not disclose fully the related party transactions in its financial statements. It also did not adequately manage the conflicts of interests of related parties arising from ownership interests of its key officers.
- 3.8 The related parties were two companies engaged by AHPETC to carry out managing agent (MA) services and essential maintenance and lift rescue services (EMSU services). They were FM Solutions and Integrated Services (FMSI) and FM Solutions and Services Pte Ltd (FMSS). The Secretary of AHPETC was the owner of FMSI, a sole

proprietorship. The Secretary, General Manager and Deputy General Manager of AHPETC were directors and shareholders of FMSS.

- 3.9 AHPETC did not disclose in its FY 2012/13 financial statements the amount of fees for project management services and EMSU services rendered by the related parties. Therefore, AHPETC did not comply with the Singapore Financial Reporting Standards which require disclosure of related party transactions in financial statements.
- 3.10 There were lapses in the procurement of EMSU services in 2011 from FMSS. AHPETC waived the calling of open tender, due to its failure to take adequate and timely action to procure the services. There was also a lack of due diligence in assessing the fee proposal. As a result, the information used in approving the contract and the fees was incorrect, which led to fees paid being higher than intended.
- 3.11 AHPETC could not produce documentary evidence to show the consideration by Town Councillors of the full extent of the related party interests, conflicts of interests involved and the safeguards needed, before AHPETC entered into contracts with FMSS. In particular, there was no documentary evidence that the AHPETC Town Councillors had specifically considered the ownership interests of AHPETC Secretary, General Manager and a Deputy General Manager. These contracts amounted to about \$25.9 million in total. These issues are relevant especially in the context of weaknesses observed in paragraphs 3.12 and 3.13.
- 3.12 There were instances where the Secretary and General Manager issued payment claims as owner of FMSI and director of FMSS respectively, and subsequently the same General Manager certified these payment claims and approved the payment vouchers in her capacity as an officer of AHPETC. PwC was not provided with sufficient documentary evidence for it to independently ascertain the manner and extent of verification of the payments at the cheque-signing stage by the Chairman or Vice-Chairman. The key officers of AHPETC (i.e. Secretary, General Manager and Deputy General Manager) who had ownership interests in FMSS and at the same time performed a role (for AHPETC) in approving payments to FMSS were in clear conflicts of interests. Hence, it was important for AHPETC to have put in place adequate mitigating controls to manage the conflicts of interests.
- 3.13 For two of the contracts awarded in 2012 (totalling \$20.7 million), services rendered by FMSS had commenced before formal approvals were obtained and written agreements issued.
- 3.14 Taken in totality, AHPETC did not adequately manage the conflicts of interests involved in related party transactions.

Lapses in Management of Arrears of Conservancy and Service Charges

- 3.15 AHPETC did not have a system to monitor the scale of its Conservancy and Service (C&S) arrears accurately. The statistics on arrears that AHPETC submitted to MND as well as AHPETC's Finance and Investment Committee were unreliable.
- 3.16 There were significant discrepancies between AHPETC's arrears reports submitted to MND and to AHPETC's Finance and Investment Committee for the same month of March 2013, which were not due to the reports' different formats with regard to duration of arrears. In addition, there were discrepancies in the numbers between AHPETC's reports to MND for March and April 2013 which indicated that one or both the reports were incorrect.
- 3.17 Hence, there is no assurance that AHPETC is able to monitor and manage its C&S arrears properly or present an accurate picture of arrears in its financial statements.

Lapses in Internal Controls and Procurement

- 3.18 There were lapses in internal controls, which exposed AHPETC to the risk of loss of monies or valuables, commitment to expenditure without requisite approval as well as wrong payments for goods and services. In particular, it was observed that:
- (a) AHPETC had not performed monthly bank reconciliations in the manner prescribed by the Town Councils Financial Rules which require a bank reconciliation statement to be prepared for each account at least once a month;
 - (b) AHPETC did not have adequate controls to safeguard valuables;
 - (c) AHPETC did not have adequate controls over receipt and handling of cheques;
 - (d) AHPETC did not comply with the Town Councils Financial Rules with regard to approvals of procurement in a number of instances; and
 - (e) AHPETC did not have segregation of duties within the payment process for a number of invoices to external vendors.

Inadequacies in Record Management and Accounting System

- 3.19 AHPETC took over the managing agent, CPGFM, from the previous Town Council in May 2011, and subsequently appointed FMSS as the new managing agent in August 2011. AHPETC did not properly manage the transition between its two managing agents.
- 3.20 AHPETC did not ensure that documents were properly accounted for and safeguarded. As a result, AHPETC was unable to provide supporting documents for the period April to July 2011 to its auditor, FKT. This affected the audit of its FY 2011/12 accounts and consequently the opening balances of the FY 2012/13 accounts.

- 3.21 AHPETC also could not provide some documents required during the current audit that concerned transactions taking place after AHPETC had taken over from the previous Town Council. In response to reminders, AHPETC indicated that it could not locate some of the documents and was still looking for others, three months after the request for the documents.
- 3.22 In addition, AHPETC's accounting systems and procedures were inadequate. In several instances, amounts collected and paid out were not properly recorded and correctly accounted for. AHPETC also had not exercised due diligence in monitoring and following up on amounts due (i.e. receivables) and monies received (i.e. receipts) from external parties. AHPETC did not trace the amounts received and remove these amounts from the accounts for amounts due (i.e. receivables accounts). Consequently, amounts due recorded in the accounts were overstated.
- 3.23 As a result of the inadequacies, AHPETC's financial statements for FY 2012/13 did not accurately reflect AHPETC's state of affairs and transactions.
- 3.24 The observations in this overview are elaborated in the summary of key observations in paragraph 5 while the detailed observations, AHPETC's comments and auditors' further comments are contained in **Appendices A to C**.

4 CONCLUSION

- 4.1 Based on the audit observations above, the financial statements for FY 2012/13 prepared by AHPETC did not accurately reflect the state of affairs and transactions of AHPETC. AHPETC's auditor had also stated in its auditor's report for FY 2012/13 that it was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Until the weaknesses are addressed, there can be no assurance that AHPETC's accounts are accurate and reliable, or that public funds are properly spent, accounted for and managed.

5 SUMMARY OF KEY OBSERVATIONS

5.1 The key observations from the Auditor-General's Office (AGO)'s audit are in the following five areas:

- A. Lapses in Management of Sinking Funds;
- B. Lapses in Governance of Related Party Transactions;
- C. Lapses in Management of Arrears of Conservancy and Service Charges;
- D. Lapses in Internal Controls and Procurement; and
- E. Inadequacies in Record Management and Accounting System.

A. Lapses in Management of Sinking Funds

5.2 The Town Councils Financial Rules require a Town Council to make the necessary transfers to sinking fund bank accounts within one month from the end of each quarter of a financial year. Such funds are required to be separately maintained for the improvement to and long-term maintenance of properties.

5.3 The Aljunied-Hougang-Punggol East Town Council (AHPETC) did not transfer monies as required to the sinking fund bank accounts and did not manage its sinking funds properly. This included not transferring Conservancy and Service (C&S) fees and grants allocated to sinking funds into the sinking fund bank accounts accurately and promptly for the financial year (FY) 2012/13. It also did not transfer monies to the sinking fund accounts for the last three quarters of FY 2011/12 until queried by AGO.

5.4 AGO observed the following instances of sinking funds not being transferred or the transferred amount falling short:

- (a) For FY 2012/13, AHPETC only transferred \$1.5 million to the sinking fund bank accounts on 13 February 2013, one month before the end of FY 2012/13. Although it subsequently made another transfer of \$2.74 million on 16 January 2014, nine months after the end of the financial year, AGO found that this was still less than what was required to be transferred under the Town Councils Financial Rules. Following AGO's query, AHPETC made an additional transfer of \$1.2 million on 30 June 2014.
- (b) For the last three quarters of FY 2011/12, AGO found that AHPETC did not make any transfers to the sinking fund bank accounts. Following AGO's query, AHPETC transferred \$7.44 million on 30 June 2014. AGO found errors in AHPETC's computation which resulted in a shortfall of \$469,000 in the transfer made by AHPETC.
- (c) AHPETC was supposed to transfer Goods & Services Tax (GST) input tax claimed from Inland Revenue Authority of Singapore (IRAS) for sinking fund expenditures paid from sinking fund bank accounts for FY 2011/12 and FY

2012/13¹ back to the sinking fund bank accounts. It did not. The maximum amount of GST input tax claimable was about \$643,000 and \$888,000 for FY 2011/12 and FY 2012/13 respectively.

- 5.5 In addition, AGO noted from its test checks that there were other instances of non-compliance with the Town Councils Act and lapses in the manner AHPETC managed its sinking fund bank accounts.
- 5.6 There were instances of wrong use or wrong transfer of monies pertaining to sinking fund bank accounts. These lapses included the following:
- (a) AHPETC wrongly deposited \$5.49 million intended for sinking fund bank accounts into an operating fund bank account upon maturity of two sinking fund fixed deposits and closure of a sinking fund bank account in FY 2012/13. AHPETC subsequently made a sinking fund fixed deposit placement of \$5 million from the operating fund bank account instead of \$5.49 million. There was thus a shortfall of \$490,000.
 - (b) AHPETC had wrongly treated Neighbourhood Renewal Programme (NRP) expenses as payments that could be made from sinking fund bank accounts. It paid NRP expenses incurred in FY 2012/13 from sinking fund bank accounts even though under the Town Councils Act and the Town Councils (Disbursement of Moneys from Sinking Fund) Rules, such expenses should not be paid from sinking funds. It later transferred NRP grants to its sinking fund bank accounts in March 2013 (towards the end of FY 2012/13) although there was no requirement to do so.

B. Lapses in Governance of Related Party Transactions

- 5.7 AHPETC did not disclose fully the related party transactions in its financial statements. It also did not adequately manage the conflicts of interests of related parties arising from ownership interests of its key officers. There were control weaknesses, and lack of documentary evidence that payments to the related parties were independently verified so as to ensure that work has been satisfactorily performed and payments were fully justified and correctly computed.
- 5.8 The related parties were two companies engaged by AHPETC to carry out managing agent (MA) services and essential maintenance and lift rescue services (EMSU services). They were FM Solutions and Integrated Services (FMSI)² and FM Solutions and Services Pte Ltd (FMSS)³. The Secretary of AHPETC was the owner

¹ AHPETC is allowed to claim from IRAS, GST input tax paid for sinking fund expenditure if the expenditure falls within IRAS' criteria. Since the GST input tax was paid from bank accounts of sinking funds, such GST claimed from IRAS has to be returned to sinking funds.

² FMSI provided EMSU services for the precinct under the former Hougang Town Council for the period April 2011 to June 2012.

³ FMSS provided MA services since August 2011, EMSU services for precincts under AHPETC except those under the former Hougang Town Council from October 2011 to June 2012 and EMSU services for all precincts under AHPETC since July 2012.

of FMSI, a sole proprietorship. As for FMSS, the Secretary, General Manager⁴ and a Deputy General Manager of AHPETC were directors and shareholders of FMSS.

- 5.9 First, AHPETC did not disclose in its FY 2012/13 financial statements the amount of fees for project management services rendered by FMSS, amounting to \$223,000. AHPETC also did not disclose that FMSS and FMSI had provided EMSU services to AHPETC in FY 2012/13 for a total fee of \$1.28 million. Therefore, AHPETC did not comply with the Singapore Financial Reporting Standards which require a reporting entity to disclose related party transactions in its financial statements.
- 5.10 Second, AGO found that there was no open competition for the procurement of EMSU services in 2011. Hence, there is no assurance that AHPETC had obtained competitive prices for the services.
- (a) AHPETC did not take adequate and timely action to procure EMSU services for the period October 2011 to June 2012, which led to a waiver of tender for the services in September 2011. The contract was awarded to FMSS.
 - (b) For the same tender, AGO also observed that there was a lack of due diligence in assessing the fee proposal submitted by FMSS. The committee of four AHPETC Town Councillors appointed to consider FMSS' proposal informed the other Town Councillors that the fee payable should be about the same as the combined fees charged by the two incumbent contractors and that the combined fees was \$70,110 per month. However, AGO's checks revealed that the combined fees of the incumbent contractors was about \$49,000 per month, which was 30.1 per cent lower than what the Committee had informed the other Town Councillors. AGO observed that the fees billed by FMSS for the period October 2011 to June 2012 averaged \$67,000 per month which was 36.7 per cent higher than the combined fees charged by the two incumbent contractors at the time of tender.
- 5.11 Third, PricewaterhouseCoopers Consulting Pte Ltd (PwC) did not see any documentary evidence that the AHPETC Town Councillors had considered the full extent of the interests of the related parties, the conflicts of interests involved and safeguards needed (see footnotes 2 and 3 for details on the related party relationships) before AHPETC entered into the contracts with FMSS. In particular, there was no documentary evidence that the AHPETC Town Councillors had specifically considered the ownership interests of AHPETC Secretary, General Manager and Deputy General Manager.
- (a) For the contract for MA services of about \$5.2 million awarded in 2011, PwC noted that there was incomplete disclosure by the related parties based on documents made available. The fact that AHPETC Secretary and General Manager had ownership interest in FMSS was not recorded in the minutes of Town Council meetings. There was also no disclosure or documented notation of an AHPETC Deputy General Manager's ownership interest in FMSS. These conflicts of interests and the safeguards needed to address the conflicts

⁴ The General Manager of AHPETC is the spouse of the Secretary of AHPETC.

are material and should have been properly evaluated and documented, before the contract was entered into.

- (b) For the contracts for MA and EMSU services totalling approximately \$20.7 million awarded in 2012, PwC observed that the reports and minutes of Town Council meeting made available to PwC, did not show that the relationships, the ownership of FMSS, the conflicts of interests involved and the mitigating control procedures that would be instituted, were considered before the contracts were entered into.
- 5.12 Fourth, AHPETC did not have the necessary checks and balances in payment to related parties. PwC observed 84 invoices amounting to \$6.61 million from FMSS and FMSI which were issued and signed by the General Manager and Secretary of AHPETC in their roles as director of FMSS and owner of FMSI respectively. Of these, 11 invoices amounting to \$1.69 million were certified (for work done) by the General Manager on behalf of AHPETC and 9 invoices amounting to \$264,000 were verified by the Deputy General Manager who is a shareholder of FMSS. For these invoices, the General Manager also approved the payment vouchers and / or the cheques before the cheques were handed over to the cheque signatories for signing. The Secretary was also one of the signatories for some of the cheques.
- 5.13 PwC was also unable to determine if the Chairman or Vice-Chairman of AHPETC adequately verified payments to related parties before they signed the cheques. AHPETC represented that the Chairman or Vice-Chairman performed independent checks on such payments. However, PwC was not provided with sufficient documentary evidence for it to independently ascertain the manner and extent of verification of the payments at the cheque-signing stage by the Chairman or Vice-Chairman.
- 5.14 The key officers of AHPETC (i.e. Secretary, General Manager and Deputy General Manager) who had ownership interests in FMSS and at the same time performed a role (for AHPETC) in approving payments to FMSS were in clear conflicts of interests. Hence, it was important for AHPETC to have put in place adequate mitigating controls to manage the conflicts of interests.
- 5.15 Fifth, AHPETC did not comply with the Town Councils Financial Rules as it issued written contracts only after the services had commenced. For the two contracts (totalling \$20.7 million) awarded to FMSS in 2012, AGO observed that approvals for award were obtained and written agreements issued, up to a month after services had commenced. Consequently, AHPETC's interest would not have been safeguarded.

C. Lapses in Management of Arrears of Conservancy and Service Charges

- 5.16 AGO's review of AHPETC's C&S arrears revealed that AHPETC did not have a system to monitor the scale of its arrears accurately. AGO found indications that AHPETC's statistics for arrears submitted to the Ministry of National Development (MND) as well as to AHPETC's Finance and Investment (F&I) Committee were unreliable.

- 5.17 AGO observed significant discrepancies between AHPETC's arrears reports submitted to MND and to AHPETC's F&I Committee, which were not due to the reports' different formats with regard to duration of arrears. The arrears reports submitted to MND for the month of March 2013 showed 4,379 units with arrears of three months or more. However, the report submitted to AHPETC's F&I Committee for arrears as at 31 March 2013 showed 17,502 units with arrears of more than 90 days.
- 5.18 In addition, AGO noted discrepancies in the numbers between AHPETC's reports to MND for March and April 2013. The April 2013 report showed a high number of 17,077 units with arrears of three months or more. However, the March 2013 report did not show a similar large number of units with arrears either in the "less than three months" category or "three months or more" category which could be traced to the April 2013 report. This indicates that one or both the reports were incorrect.
- 5.19 Consequently, there is no assurance that C&S arrears are properly monitored and managed.

D. Lapses in Internal Controls and Procurement

- 5.20 AGO and PwC observed various lapses in internal controls and procurement, which exposed AHPETC to the risk of loss of monies or valuables, commitment to expenditure without requisite approval as well as wrong payments for goods and services.

(i) Lapses in performance of monthly bank reconciliation

- 5.21 AHPETC had not performed monthly bank reconciliations in the manner prescribed by rule 32(2) of the Town Councils Financial Rules which requires a bank reconciliation statement to be prepared for each account at least once a month. It is important that bank reconciliations are carried out on a timely basis, at least monthly, to enable any differences between the accounting records and the bank statements to be investigated and addressed promptly.

(ii) Lapses in controls over cheques received and valuable items

- 5.22 AGO found that AHPETC did not have adequate controls to safeguard cheques and valuable items. The controls over receipts of cheques were weak and there were inadequate procedures for handling cheques. There was no evidence that the appointed AHPETC officer had carried out surprise examination of valuables in FY 2012/13. Furthermore, AGO observed that one officer in AHPETC had custody of the key to the padlock, the password to the electronic lock of the strong room in the main office of AHPETC, and also the key to the safe placed inside the strong room.
- 5.23 Given these lapses, there is a risk of AHPETC losing valuable items and not detecting the loss on a timely basis. AHPETC had not implemented adequate controls to properly safeguard its valuables and cheques received.

(iii) *Lapses in Procurement and Payment*

- 5.24 PwC's test checks found lapses in the calling and approval of quotations. There were also payments not made in accordance with contractual rates as well as delays in payments.
- 5.25 AHPETC did not comply with the requirements under the Town Councils Financial Rules⁵ with regard to approvals of procurement. PwC's checks revealed the following:
- (a) AHPETC had called a quotation and awarded a contract for provision of event management services amounting to \$88,346, even though a tender should have been called under the requirements in the Rules. The cost subsequently increased to \$101,641 due to changes in scope of work. However, the total expenditure for the event was only approved by the Chairman of AHPETC instead of the Town Council as required under the Rules.
 - (b) There were four waivers of quotation for purchases amounting to \$20,672 and a quotation amounting to \$1,500, which were approved by the Deputy General Manager. However, there was no documentation provided to PwC to show the delegation of authority under the Rules to the Deputy General Manager to approve waivers of quotation and to incur expenditure.
- 5.26 Besides the lapses in payment to related parties mentioned in paragraph 1.12, PwC's checks also revealed a lack of segregation of duties within the payment process for 10 invoices amounting to \$393,224 to external vendors. PwC observed that the General Manager of AHPETC certified work done as well as approved the payment vouchers and cheques. The lack of segregation of duties within the payment process exposes AHPETC to the risk of wrong payments for goods and services.
- 5.27 PwC further observed delays in settlement of invoices by AHPETC to its vendors. There were 85 invoices amounting to \$1.26 million where the approval dates of the payment voucher were more than 60 days from the invoice dates, the longest of which was 8 months from the invoice date. Unnecessary delays in payments may result in additional interest costs to AHPETC.

E. Inadequacies in Record Management and Accounting System

- 5.28 AHPETC did not have a proper system to ensure that documents were properly accounted for and safeguarded. In addition, AHPETC's accounting system and procedures were inadequate. As a result, AHPETC's financial statements for FY 2012/13 did not accurately reflect AHPETC's state of affairs and transactions.

⁵ Rules 34(1), 73(1), 73(1A), 73(3A), 73(11), 73(12) and 74(1).

(i) *Inadequate systems to safeguard documents*

- 5.29 AHPETC did not ensure that it had the accounting documents to support the figures for April to July 2011 which were included in the FY 2011/12 financial statements⁶. Consequently, its auditor, Foo Kon Tan Grant Thornton LLP (FKT), was unable to issue an audit opinion that AHPETC's FY 2011/12 financial statements were true and fair. This also had an impact on the audit of the opening balances in the FY 2012/13 financial statements.
- 5.30 AHPETC took over the managing agent, CPG Facilities Management Pte Ltd (CPGFM), from the previous Town Council but did not manage properly the transition from the first managing agent to its new managing agent, FMSS. AHPETC did not ensure that it had a system to account for and safeguard the relevant accounting documents. Further, while there was turnover of finance staff of FMSS, AHPETC did not have formal handing and taking over procedures when finance staff resigned.
- 5.31 AHPETC was also not able to provide AGO and PwC some documents on transactions taking place after AHPETC had taken over from the previous Town Council. These documents included contracts and job sheets⁷. In response to reminders, AHPETC had indicated that it was not able to locate some of these documents and was still looking for the other documents even though requests for these documents were made at least three months earlier.
- 5.32 It was the responsibility of AHPETC to ensure that it took over all necessary accounting documents and data, and put in place a proper system of record management for safeguarding all its documents and data. AHPETC did not comply with the Town Councils Act which requires a Town Council to keep proper accounts and records of its transactions and affairs. Consequently, AHPETC was not able to provide some of the documents and information required by AGO, PwC and FKT.

(ii) *Inadequacies in accounting system*

- 5.33 AHPETC was unable to generate from the system an accurate ageing analysis of C&S fees due in order to support its provision for fees that may not be collectable. Inadequacies in AHPETC's accounting system had affected its ability to provide the information required by FKT on C&S fees due (i.e. receivables) and fees received in advance (i.e. advance receipts).
- 5.34 AGO observed that the inadequacies resulted in some advance payments made by residents at the counter to be incorrectly recorded in the accounts. This had the effect of reducing the amounts due. The payments should have been recognised as C&S fees received in advance. In addition, there were incorrect amendments of identifiers (i.e. bill codes) in the accounting system, resulting in the wrong classification of

⁶ Aljunied-Hougang Town Council (AHTC) engaged Mazars LLP (Mazars) in July 2011 to carry out a special audit of the financial statements for the period 1 April 2011 to 31 July 2011, prepared for handover of precincts of Aljunied Town Council to AHTC, Ang Mo Kio Town Council and Pasir Ris-Punggol Town Council. Mazars issued a clean audit opinion on all the financial statements.

⁷ Job sheets contain the summary of works carried out and are issued by contractors.

receipts in the accounting system. Consequently, FKT was not able to determine the validity and accuracy of advance receipts and provision for C&S fees that may not be collectable.

5.35 AGO's checks also revealed the following inadequacies in AHPETC's accounting procedures:

- (a) AHPETC had not exercised due diligence in monitoring and following up on amounts due (i.e. receivables) and monies received (i.e. receipts) from external parties. AHPETC did not trace the amounts received and remove these amounts from the accounts for amounts due (i.e. receivables accounts). Consequently, amounts due recorded in the accounts were overstated. In this regard, AGO's test checks revealed that the amounts due could be overstated by about \$1.73 million for FY 2012/13. There was also no assurance that amounts were collected when due.
- (b) AHPETC did not exercise due diligence in monitoring and following up on items in a temporary clearing account used to record receipts whose nature could not be identified immediately. The account had a net balance of \$308,715 as at 31 March 2013. Transactions in the temporary clearing account should be reviewed promptly so that the accounting records could be updated correctly and any unauthorised or invalid transactions could be detected and investigated.
- (c) AHPETC did not trace and remove from its liabilities accounts, amounts pertaining to works that had been paid or settled as at 31 March 2013. AGO's test checks revealed overstatement of liabilities for "Accrual without work orders" by \$162,112.
- (d) AHPETC did not record lift upgrading programme expenses in its financial statements for earlier financial years (i.e. FY 2010/11 and FY 2011/12) in which the expenses were incurred. Consequently, AHPETC did not correctly reflect in its financial statements the lift upgrading programme expenses for the three financial years from FY 2010/11 to FY 2012/13; there were understatements of about \$240,000 and \$8.14 million in FY 2010/11 and FY 2011/12 respectively as well as overstatement of \$8.38 million in FY 2012/13.
- (e) AHPETC did not reconcile the tax provisions for income tax with the actual tax assessments and GST in the accounting records with the GST submissions to IRAS. As a result, adjustments for over-provision or under-provision were not made to the accounting records. In this regard, AGO's checks revealed that the tax provisions in the accounting records could be understated by \$495,367 for FY 2012/13.
- (f) AHPETC also did not have adequate guidelines for non-routine works to ensure timely verification of works and issuance of work orders. As liabilities and expenses would be recorded only after work orders were issued, there was no assurance that liabilities and expenses were recorded in the appropriate accounting period.

6 **DETAILED OBSERVATIONS**

6.1 The detailed observations, AHPETC's comments and both AGO's and PwC's further comments are in the following Appendices:

- (a) Appendix A: Report (Part I - AGO) on Disclaimer Areas Reported for the Financial Year 2012/13;
- (b) Appendix B: Report (Part II - AGO) on Financial Management and Accounting Systems; and
- (c) Appendix C: Report (Part III - PwC) on Inflows and Outflows of Bank Accounts.