

AUDIT OBSERVATIONS ON DISCLAIMER AREAS REPORTED FOR THE FINANCIAL YEAR 2012/13

1 Opening Balances

Disclaimer Reported by FKT

“As we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Aljunied-Hougang Town Council for the financial year ended 31 March 2012 as stated in our independent auditor’s report dated 19 November 2012, we were also unable to determine if the opening balances of the Town Council, and the comparatives in the current year’s financial statements which were derived from the financial statements for financial year ended 31 March 2012 are fairly stated. Any adjustment to opening balances would have consequential effects on the current year or prior year’s figures.” (emphasis added)

Background

1.1 Foo Kon Tan Grant Thornton LLP (FKT) referred to its auditor’s report dated 19 November 2012 for the Financial Year (FY) 2011/12 financial statements of the Town Council in its description of the FY 2012/13 disclaimer on opening balances.

1.2 According to FKT’s report on the Aljunied-Hougang Town Council¹ (AHTC)’s financial statements for FY 2011/12 dated 19 November 2012², FKT was unable to determine whether the income and expenses and, receipts and payments from 1 April 2011 to 31 July 2011 for Aljunied Town Council (ATC)¹ that were included in the FY 2011/12 financial statements of AHTC, were fairly stated due to the following reasons:

- a. *“...we were not allowed access to the auditor’s audit documentation”*; and
- b. *“We were also not able to obtain the supporting accounting documents from the previous managing agent³ of the Aljunied Town Council prior to the reconstitution.”*

¹ Following the General Election in 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. AHTC was subsequently reconstituted as Aljunied-Hougang-Punggol East Town Council (AHPETC) with effect from 22 February 2013, following the by-election for Punggol East Single Member Constituency.

² Extract from FKT’s FY2011/12 Auditor’s Report:

“The accompanying financial statements include the Income and Expenditure Statement, Sinking Funds, Town Improvement and Project Fund and Government Grants whose figures include those stated in the Statement of Income and Expenditure and Receipts and Payments for the period 1 April 2011 to 31 July 2011 of Aljunied Town Council. This statement was audited by another firm of auditors and we were not allowed access to the auditor’s audit documentation. We were also not able to obtain the supporting accounting documents from the previous managing agent of the Aljunied Town Council prior to the reconstitution. As a result, we were unable to determine whether the income and expenses and receipts and payments for the period 1 April 2011 to 31 July 2011 for Aljunied Town Council that are included in the accompanying financial statements, are fairly stated.”

³ The managing agent was CPG Facilities Management Pte Ltd.

Observation

1.3 The Auditor-General's Office (AGO) found that there was no documentary evidence showing that FKT was not allowed access to the audit work papers of Mazars LLP (Mazars)⁴. With regard to supporting accounting documents, the previous managing agent, CPG Facilities Management Pte Ltd (CPGFM) informed AGO that it had handed over those documents to Aljunied-Hougang-Punggol East Town Council (AHPETC)¹. The details of the observations are explained in the following paragraphs.

Not allowed access to audit work papers

1.4 FKT was not able to provide AGO with any documentation showing that FKT was not allowed access to the audit work papers of Mazars. AGO noted that FKT had made an attempt on 16 October 2012 to contact Mazars requesting "*access to [Mazars'] audit workpapers for the audit work done for the period 1 April 2011 to 31 July 2011*". According to FKT, it did not receive a response to its letter and had not taken any follow-up action subsequently. AGO checked with Mazars on the request by FKT and was informed that Mazars did not receive FKT's letter.

Handing over of accounting documents by previous managing agent

1.5 According to CPGFM, it had handed over all documents pertaining to ATC, including the supporting accounting documents to AHPETC in July and August 2011. CPGFM provided AGO with photocopies of listings showing the type of accounting documents up to 31 July 2011 that had been handed over to AHPETC. The listings had the signatures of staff of the new managing agent of AHPETC, FM Solutions and Services Pte Ltd (FMSS) who were involved in taking over the documents. AGO subsequently sighted the originals of these listings at an AHPETC office.

1.6 AGO requested AHPETC for some documents that are of the types stated in the listings and are dated within a specified period. AHPETC was only able to provide some of the documents.

1.7 According to AHPETC, the FMSS staff who signed for the accounting documents had since resigned. Of the five staff in Finance Department, including the Finance Manager, who were involved in taking over the accounting documents from CPGFM, four resigned in 2011 and one resigned in 2012.

1.8 From interviews with three of the resigned staff, AGO was informed that the staff had signed for and taken over the accounting files and documents from CPGFM (as mentioned in paragraph 1.5) but they had not verified the contents of the files. The three staff who resigned and another former staff (who was not involved in the taking over from CPGFM) also informed AGO that these files and documents were left in AHPETC's premises at the

⁴ Aljunied-Hougang Town Council (AHTC) engaged Mazars LLP 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 each of these financial statements.

time of their resignation. Based on interviews with AHPETC and former staff, AGO noted that there were no formal handing and taking over procedures when staff resigned.

1.9 The evidence gathered by AGO indicates that certain documents were handed over by CPGFM. AHPETC informed AGO that it had carried out extensive search to locate the documents which AGO requested for and was not able to find the documents other than those that had been provided to AGO.

1.10 AHPETC did not implement adequate procedures to ensure that accounting documents were properly taken over and safeguarded. In addition, AHPETC did not have formal handing and taking over procedures when staff resigned. Consequently, AHPETC was not able to provide some of the accounting documents requested by AGO. Under section 35(a) of the Town Councils Act, a Town Council shall keep proper accounts and records of its transactions and affairs. It is therefore the responsibility of the Town Council to put in place a proper system of record management to ensure the proper safeguarding of its documents.

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2a Receivables from Various Stakeholders – Citizens Consultative Committee**Disclaimer Reported by FKT**

“(a) Citizens Consultative Committee

As at 31 March 2013, included in other receivables and deposits were amounts of \$1,177,859 due from the Citizens Consultative Committee. Out of these receivables, \$1,118,574 relates to carried forward balances in respect of grants due for Town Improvement projects that were in the accounts handed over by the previous managing agent. During the current financial year, the Town Council received \$520,926 from the Citizens Consultative Committee. However, these receipts could not be identified and matched to the receivable balance of \$1,118,574. Accordingly, the Town Council recorded this amount received of \$520,926 in other payables as at 31 March 2013. We are unable to determine the appropriateness of the Town Council’s accounting treatment of this receipt of \$520,926 from the Citizens Consultative Committee.”

Observation

2.1 AGO’s checks revealed that there was poor monitoring and lack of due diligence by AHPETC in following up on amounts due (i.e. receivables) and monies received (i.e. receipts) from external parties, to ensure that payments due were collected on a timely basis and that receipts were accurately captured in the accounting records.

Amounts due from Citizens Consultative Committee of \$1,177,859

2.2 AGO found from its review of an audit schedule provided by AHPETC to FKT and the accounting records, that of the \$1,177,859 stated by FKT as amounts due from Citizens Consultative Committee (CCC) in the disclaimer, only \$614,237 was due from CCC while the remaining \$563,622 was receivables from other parties such as tenants and lessees.

2.3 AGO noted that AHPETC did not exercise due diligence in following up on and reconciling the amounts due from CCC in a timely manner. Correspondences provided by AHPETC revealed that AHPETC started to follow up on these receivables by contacting the Housing and Development Board (HDB) only in August 2012 (more than a year after the accounts were handed over by CPGFM, the previous managing agent).

2.4 Arising from AHPETC’s follow-up, HDB asked AHPETC to provide project details supporting the receivables but AHPETC did not do so. AHPETC informed AGO that it was not able to identify the project details required by HDB as it did not have the supporting documents for these receivables. These receivables were recorded in ATC’s accounts handed over by CPGFM to AHPETC. Nevertheless, AGO was able to identify the project details on the amount of \$614,237 from various documents, such as invoices and payment advices, provided by AHPETC.

2.5 AGO found that \$388,887 of the \$614,237 receivables had already been paid by HDB into AHPETC's bank account on 1 June and 24 September 2012. According to AHPETC, it did not have the breakdown of the receivables and hence could not match the receipts to the corresponding receivables. It had instead recorded these receipts in other payables (i.e. \$388,887 was part of \$520,926 recorded as other payables which FKT also indicated in this disclaimer).

2.6 After taking into account the \$388,887 receipts and net over-accruals of \$90,113 not adjusted for when receipts were finalised, the amounts due from CCC as at 31 March 2013 should be \$135,237 instead of \$614,237. The \$135,237 related to three projects⁵ carried out in precincts which were subsequently transferred to two other Town Councils – Ang Mo Kio Town Council (AMKTC) and Pasir-Ris Punggol Town Council (PRPGTC) due to boundary changes in 2011.

2.7 According to CPGFM, the expenses for the three projects were paid by ATC and ATC had claimed for reimbursement from HDB. CPGFM also confirmed that the receivables for these claims remained in AHPETC's accounts and were not transferred to AMKTC and PRPGTC following the handing over of precincts with the corresponding assets and liabilities to these two Town Councils. HDB informed AGO that it had paid these two Town Councils in 2012 for the claims of \$135,237 pertaining to the three projects. According to HDB, it was not privy to the distribution of assets or liabilities between Town Councils at handover. Hence, it had sought verbal confirmation from these two Town Councils that the reimbursements for the projects should be paid to them.

2.8 AGO followed up with the two Town Councils on the three projects. AMKTC informed AGO that it had since established that the reimbursement it received from HDB (for one project) should be made to AHPETC instead. Subsequently, on 6 August 2014, HDB informed AHPETC to raise an invoice to HDB so that HDB could process the reimbursement to AHPETC.

2.9 PRPGTC informed AGO that it was informed by HDB to issue invoices to claim for reimbursements for the other two projects. PRPGTC issued the invoices and was subsequently paid by HDB. In view of the lack of clarity on which Town Council(s) should be reimbursed for the projects, HDB, AHPETC and PRPGTC could work together to resolve the matter.

Amounts due from other parties of \$563,622

2.10 For the amounts due from other parties amounting to \$563,622, AHPETC was not able to provide some of the supporting documents requested by AGO for test checks. For the two largest amounts totalling \$196,257 which were due from HDB, AGO checked with HDB and found that these two amounts should have been reversed out from receivables balance as explained in paragraphs 2.12 and 2.13 below; there was thus an overstatement of the amounts that were due to AHPETC from other parties.

⁵ The relevant project codes are 2009-0013-2C, 2010-0718-2C and 2010-0028-3C.

2.11 Based on the audit schedule provided by AHPETC and the accounting records, \$256,650 of the \$563,622 comprised receivables carried forward from the accounts of Hougang Town Council (HTC), as shown in Table 1 below:

Table 1: Breakdown of receivables carried forward from HTC

S/N	Reference/ Description	Journal Date	Amount (\$)
1	HU1435/12 (no description)	30 March 1996	68,915
2	HG0058/13 (no description)	31 March 1996	7,778
3	HG0005/13-BFA ⁶ to be claimed from HDB	31 March 2011	53,219
4	HG0015/13-Agency Fee – Car Park	31 March 2011	143,038
5	Miscellaneous items	1995 to 2011	(16,300)
	Total		256,650

2.12 AHPETC was not able to provide AGO with supporting documents for the items in Table 1. AGO noted that the receivables (S/N 3 and 4 of Table 1 amounting to \$196,257) for Barrier Free Access (BFA) project and car park agency fees relating to HTC were due from HDB. According to HDB, it had made the final payment for the BFA project formerly under HTC to AHPETC in FY 2012/13 and there was no outstanding claim for BFA projects as at 31 March 2013. Hence, AHPETC should have reversed out the receivable of \$53,219 (S/N 3 of Table 1) for BFA claim.

2.13 AHPETC informed AGO that the receivable of \$143,038 (S/N 4 in Table 1) was accrued by HTC in March 2011 for car park agency services performed by HTC in 2010. AHPETC produced to AGO an invoice amounting to \$152,531 which it had issued to HDB to support the receivable. AGO noted that AHPETC had upon issuance of the invoice in May 2012, recorded the amount of \$152,531 under receivables but did not reverse out the receivable of \$143,038 accrued by HTC earlier. Hence, AHPETC had overstated the receivable by \$143,038.

2.14 The remaining amounts due from other parties (i.e. \$306,972) comprised numerous items of small amounts. AGO selected seven journal adjustments made in FY 2012/13 and 35 records relating to legal fines and penalties for test checks, amounting to \$24,547. AHPETC was only able to provide AGO with the supporting documents for the seven journal adjustments and 24 records, amounting to \$23,443.

Receipts from CCC of \$520,926

2.15 The disclaimer mentioned that AHPETC received \$520,926 in FY 2012/13 but recorded this amount received in other payables as these receipts could not be identified and matched to the receivable balance.

⁶ AGO understood from AHPETC that the receivables pertained to Barrier Free Access (BFA) construction projects.

2.16 AGO had traced and identified the entire sum of \$520,926 mentioned in the disclaimer as follows:

- a. \$388,887 could be matched to receivables under Other Debtors ledger (refer to paragraph 2.5);
- b. \$126,168 could be matched to receivables in Sundry Debtors ledger; and
- c. \$5,871 could not be matched to any receivable amount in the accounting records since AHPETC had not recorded any receivable for this amount due. As such, the receipt should be recognised as income instead of other payables.

2.17 AGO found that AHPETC did not ensure that the accounting records of AHPETC relating to receivables from CCC and other parties, correctly reflect the transactions and state of affairs. It did not exercise due diligence in monitoring and following up on the receivables, which could result in payments due from external parties not received on a timely basis. Consequently, there is no assurance that such funds are correctly accounted for and moneys are collected when due.

2b Receivables from Various Stakeholders – Inland Revenue Authority of Singapore

Disclaimer Reported by FKT

“(b) Inland Revenue Authority of Singapore (“IRAS”)

As at 31 March 2013, included in other receivables and deposits were amounts due from IRAS of \$110,735 that were in the accounts handed over by the previous managing agent. Management does not have any supporting documents to substantiate these receivables. Accordingly, we are not able to ascertain if these receivables are appropriately stated.”

Observation

2.18 AGO found that AHPETC did not account for payments received in its accounting records correctly. A substantial amount of the receivables had been received but AHPETC did not match and reverse out the amounts accordingly from its receivables. Consequently, the receivables due from IRAS as at 31 March 2013 were overstated and the accounting records did not correctly reflect the receipts. AHPETC informed AGO that it had since updated the payments from IRAS in its accounting records and had reversed out the corresponding receivables.

Receivables amount of \$110,735

2.19 Based on documents made available by AHPETC to AGO, the amounts due from IRAS of \$110,735 were made up of the following:

Table 2: Breakdown of \$110,735 due from IRAS

Receivables	Amount (\$)
a. Goods and Services Tax (GST) receivables	99,026
b. Refund of contribution in lieu of property tax ⁷	12,592
c. Balance brought forward from HTC’s accounts	(883)
Total	110,735

2.20 AGO noted that FKT had reported a similar disclaimer in its auditor’s report for FY 2011/12⁸ financial statements of the \$99,026 receivable from IRAS. AHPETC had not taken any effective action to resolve the issue, thus resulting in a similar disclaimer in FY 2012/13.

⁷ Under the Property Tax (Valuation of Properties of the Housing and Development Board) Order (Cap. 254, OR13), HDB shall in respect of certain properties, pay to the Government by way of contribution a sum in lieu of property tax. For HDB properties managed by the Town Council, HDB directed the Town Council to submit the returns and pay the contribution to IRAS on its behalf.

⁸ It was reported in FKT’s FY 2011/12 disclaimer that *“Included in other receivables and deposits ... are amounts of ... \$99,026 due from ... the Inland Revenue Authority of Singapore..., that were in the accounts handed over by the previous managing agent. Management does not have any supporting documents to substantiate these receivables. Accordingly, we were not able to obtain supporting documents to verify the validity and collectability of these receivables.”*

2.21 In addition, AGO noted that the GST receivables of \$99,026 had been paid into the bank account of AHPETC (banked in on 2 August 2011 and 6 September 2011). AGO found that AHPETC did not match these receipts against the corresponding receivables and reverse out the amounts from the receivables. As a result, the receivables from IRAS were overstated by \$99,026. Following AGO's query, AHPETC reversed out the receivables in May 2014.

2.22 For the refund of contribution in lieu of property tax (recorded in the accounts as receivables) of \$12,592 (refer to Table 2), AHPETC had recorded the amount in May 2012 after submitting a revised return dated 23 May 2012 to IRAS to claim for excess amount paid. AHPETC was not able to provide AGO with adequate documents supporting the receivable. Subsequent to AGO's request for supporting documents from AHPETC, AHPETC reversed out the receivables in May 2014.

2.23 AGO checked with IRAS on the amount of contribution in lieu of property tax, to be refunded. According to IRAS, it had verbally informed AHPETC that it could only process the refund upon submission of the certified accounts to support AHPETC's request for refund. IRAS also informed AGO that there was no overpayment of contribution by AHPETC based on AHPETC's subsequent submission to IRAS in April 2013. Hence no refund was due to AHPETC. In this regard, AHPETC should have reversed out the receivables from its FY 2012/13 accounting records.

2.24 AHPETC did not promptly identify and correctly account for the receipts that had been credited into its bank accounts. AHPETC also did not promptly reverse out the receivables when these receivables were no longer valid. Consequently, AHPETC had overstated the amounts that it is due to receive from other parties, thus resulting in inaccurate figures.

2c Receivables from Various Stakeholders – Sundry Debtors

Disclaimer Reported by FKT

“(c) Sundry Debtors

As at 31 March 2013, included in Sundry Debtors of \$3,333,628 (as disclosed in Note 11) were amounts due from the Housing and Development Board of \$2,135,069. Of this amount, \$1,502,534 was received subsequently. For the remaining balance of \$1,831,094 recorded in Sundry Debtors, we were unable to carry out audit procedures to determine the validity and collectability of the receivables.”

Observation

2.25 AGO’s test checks revealed poor monitoring and lack of due diligence by AHPETC in following up on outstanding receivables and payments received from external parties to ensure that payments due were collected on a timely basis and that receipts were accurately captured in the accounting records. Consequently, receivables as at 31 March 2013 were overstated by at least \$946,408 and payments were not received on a timely basis.

2.26 The balance of \$1,831,094 recorded in Sundry Debtors, which was highlighted by FKT in its disclaimer, comprised the following:

Table 3: Breakdown of Sundry Debtors

Status of Receivables	Amount (\$)	
a. Receivables where payments from debtors had been received on or before 31 March 2013	626,397	} Net overstatement of receivables by \$946,408
b. Receivables where AHPETC had issued replacement invoices	122,332	
c. Receivables where invoices were rejected by HDB	208,807	
d. Incorrect adjusting entries	(11,128)	
e. Receivables where payments had been received from 1 April 2013 to 30 June 2014	508,370	
f. Receivables still outstanding as at 1 July 2014	376,316	
Total	1,831,094	

a. Receivables where payments from debtors had been received on or before 31 March 2013

2.27 AGO found that AHPETC had received payments from debtors on or before 31 March 2013, of which \$175,028 was received in FY 2011/12. However, these receipts were

incorrectly recorded by AHPETC in its accounting records. As a result, the corresponding receivables were not reversed out from the accounting records, leading to an overstatement of \$626,397.

b. Receivables where AHPETC had issued replacement invoices

2.28 AGO found that for 14 invoices amounting to \$122,332, AHPETC had issued replacement invoices and recorded additional receivables based on the new invoices, without taking out the receivables recorded earlier for the same works or services. As a result of the double-counting, the receivables were overstated by \$122,332. Of these 14 invoices, 10 were issued by CPGFM, the previous managing agent, and the receivables were recorded in the accounts of ATC subsequently handed over to AHPETC.

c. Receivables where invoices were rejected by HDB

2.29 AGO found that seven invoices issued by AHPETC amounting to \$208,807 were rejected by HDB in FY 2012/13 but AHPETC did not reverse out the receivables or follow up with HDB on the rejected invoices. As a result, the receivables were overstated by \$208,807.

2.30 According to HDB, the claims raised for these seven invoices were for repairs of water seepage, which were not covered under the co-payment scheme for repair of facade. HDB had informed AHPETC of its rejection of these invoices through an email dated 2 January 2013. Hence, AHPETC should have reversed out the receivables in FY 2012/13.

d. Incorrect adjusting entries

2.31 AGO noted errors in posting of adjusting entries which resulted in the understating of receivables by \$11,128.

e. Receivables where payments had been received from 1 April 2013 to 30 June 2014

2.32 AHPETC informed AGO that it had received payments from debtors during the period from 1 April 2013 to 30 June 2014 for \$508,370 of the receivables, of which \$483,134 were amounts due from HDB. HDB confirmed with AGO that the amounts had been paid in May 2014.

f. Receivables still outstanding as at 1 July 2014

2.33 Of the \$376,316 outstanding as at 1 July 2014, AGO found that there were inadequate monitoring and a lack of timely follow-up for receivables amounting to \$367,018 (97.5%) which had been outstanding for 17.5 to 37.6 months.

2.34 AGO noted that of the \$367,018 long outstanding receivables, \$326,332 and \$32,236 were amounts due from HDB and the National Environment Agency (NEA) respectively. AGO checked with HDB and NEA on these receivables and was informed that:

- i. For eight invoices totalling \$47,559, HDB and NEA did not receive the invoices. AGO noted that four of the invoices pertained to standard monthly claims from NEA and NEA had sent an email on 3 April 2013 to remind AHPETC to issue the invoices.
- ii. For 17 invoices totalling \$124,269, these were rejected by HDB (13 invoices) and NEA (four invoices). HDB rejected the 13 invoices as they were not in order. HDB had informed AHPETC in FY 2012/13 either through emails (for 10 invoices) or verbally (for two invoices), to re-issue 12 of the invoices. For the remaining invoice, HDB had informed CPGFM, the previous managing agent in July and August 2011 of the rejected invoice.

For the four invoices rejected by NEA, NEA explained that the invoices were wrongly sent to one of its regional offices. By the time the invoices were received by the relevant division, the period provided for payments (credit period) had lapsed and NEA was unable to process the invoices for payment. NEA had sent an email in April 2013 to AHPETC to re-issue four invoices.

HDB and NEA updated AGO in May 2014 and June 2014 respectively that they had not received any replacement invoices from AHPETC.

- iii. For eight invoices totalling \$11,673, NEA informed AGO that it had overlooked the invoices which it received in May 2012.
- iv. For two invoices totalling \$175,067, HDB informed AGO that it was still reviewing the claims which it received in May and November 2012.

2.35 AHPETC did not monitor and take timely follow-up action on its receivables. AHPETC also did not exercise adequate due diligence in ensuring that the accounting records relating to sundry debtors correctly reflect the transactions and state of affairs of AHPETC. Hence the accounting records did not correctly reflect the actual amounts due from external parties. As a consequence, there is no assurance that AHPETC had properly accounted for and collected such payments that are due to AHPETC.

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3 Conservancy and Service Receivables

Disclaimer Reported by FKT

“The Town Council provides for impairment losses for outstanding conservancy and service receivables only when the receivables are more than seven years in arrears. Such policy is drawn up by the Town Council as it has considered that the conservancy and service receivables will be recoverable as long as the ownership of the flats remained unchanged, and that there were no adverse circumstances indicating potential non-collectability of the outstanding dues.

As at 31 March 2013, the conservancy and service receivables totalled \$2,587,937 and the allowance for impairment losses amounted to \$589,656. Management was unable to provide an aging analysis or information on the credit profile of the individual units. Accordingly, we are unable to ascertain the credit risk characteristics of the conservancy and service receivables, and therefore not able to determine if management’s impairment assessment is appropriate.

As a result of the above, we are unable to determine the collectability of the conservancy and service receivables as at 31 March 2013. Consequently, we are also unable to ascertain the validity and accuracy of the allowance for impairment losses of \$589,656 as at 31 March 2013. In addition, we are unable to determine the accuracy of the ageing analysis of the conservancy and service receivables as disclosed in Note 10 to the financial statements.”

Observation

3.1 AGO found that AHPETC was not able to provide an ageing analysis or information on the credit profile of the individual units’ conservancy and service (C&S) fees (recorded as C&S receivables), due to lack of historical data. The information was required to determine the amount of outstanding C&S fees that may not be collectable due to the length of time they had remained outstanding (i.e. allowance for impairment losses). Receipts were also incorrectly classified in the accounting system due to incorrect amendments to identifiers (i.e. bill codes) in the accounting system.

Lack of historical data

3.2 AHPETC’s policy was to provide for impairment losses for C&S receivables that were outstanding for seven years or more. AHPETC informed AGO that it only had such transaction data for seven years or more for HTC. For precincts taken over from ATC and Marine Parade Town Council (MPTC)⁹, AHPETC only had the transaction data on arrears for the two years prior to handover. The allowance for impairment loss shown in the FY 2012/13 financial statements was computed by adding the balance carried forward from FY 2011/12 and additional impairment allowances for receivables relating to the precinct under

⁹ Following the General Election in May 2011, AHPETC took over the precinct of Kaki Bukit from MPTC due to boundary changes.

HTC only. As a result, there was no assurance that impairments were completely and accurately provided for all precincts under AHPETC in accordance with AHPETC's impairment policy.

3.3 AGO noted from correspondence dated 13 May 2011 among the Secretaries of MPTC, ATC and HTC that AHPETC had asked for receivables data and estate details from MPTC and ATC for uploading into AHPETC's accounting system. AGO's checks showed that for the receivables data, AHPETC was provided with receivables balances as at 31 May 2009 and 31 July 2011 and transaction data for a two-year period from 1 June 2009 to 31 July 2011.

3.4 AHPETC informed AGO that it had requested for transaction data for the past seven years, from the person responsible for coordinating the provision of data from the accounting system used by MPTC and ATC (external co-ordinator)¹⁰. According to AHPETC, it agreed to obtain transaction data for two years as it was assured by NCS Pte Ltd (NCS) which was maintaining the accounting system of MPTC and ATC, that it could obtain additional data if required at a later date. However, AHPETC was not able to provide AGO with any documentation of its request for seven years of transaction data.

3.5 AGO approached this external co-ordinator for information. He provided AGO with an email dated 12 July 2011, in which he informed NCS to provide AHPETC with the seven years of transaction data requested by AHPETC. The external co-ordinator had indicated in the same email to NCS that transaction data for the first five years (from June 2004 to May 2009) could be given to AHPETC later.

3.6 AGO asked NCS why it had not provided the first five years of transaction data to AHPETC. NCS explained to AGO that the first five years of transaction data were not provided as there was no subsequent follow-up request from AHPETC or the external co-ordinator. AGO was not able to sight documentation to show that apart from the initial request, AHPETC had taken further action to obtain the first five years of transaction data.

Wrong classification of receipts

3.7 At a meeting with AHPETC and its IT vendor, AGO was informed that there were incorrect amendments of identifiers (i.e. bill codes)¹¹ in the accounting system, resulting in the wrong classification of receipts in the accounting system. As such, AHPETC was unable to generate from the system an accurate ageing analysis in relation to its C&S receivables.

3.8 With regard to the incorrect amendment of bill codes in the accounting system, AGO noted that there were inadequacies in the controls over the amendment of bill codes. According to the IT vendor, any incorrect changes made to the bill codes could adversely affect the recording of receipts in the accounting system. AGO was informed by AHPETC that there were no independent checks on amendments made to bill codes in the accounting system. In addition, according to the IT vendor, the system log would only reflect the latest amendment made to the bill codes. There was thus a lack of documentary trail to enable AHPETC to identify all amendments made in order to rectify the incorrect amendments.

¹⁰ The external co-ordinator was an IT Director of PAP TC Co-ordinating Town Councils.

¹¹ Bill Codes are predefined codes used to identify the nature of amounts due/received in the Accounts Receivable ledger for updating to the specific accounts in the General Ledger.

3.9 AHPETC did not take adequate measures to ensure that it had complete and accurate data on C&S receivables for determining the allowance for impairment losses. The weaknesses in controls over the amendment of bill codes had also affected the accuracy and reliability of its accounting records. As a result, there is no assurance that AHPETC had accurately accounted for the relevant transactions.

3.10 AHPETC informed AGO that it had taken measures to ensure that the receipts collected on and after 1 April 2014 would be correctly recorded in the accounting system, and its IT vendor was writing a program to generate ageing analysis for C&S receivables.

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4 Lift Repair Expenses

Disclaimer Reported by FKT

“Included in the lift repair expenses of \$1,630,298 were expenses relating to the previous financial year. As a result, the current year’s expenditure has been overstated accordingly. Management did not ascertain the quantum of prior year’s expenses that was included in the current year’s financial statements. Accordingly, we are unable to determine the accuracy of the lift repair expenses of \$1,630,298 recorded in the year under audit.”

Observation

4.1 AGO found that AHPETC recognised lift repair expenses of \$63,902, for works done in FY 2011/12, only in the subsequent financial year.

4.2 According to AHPETC, some work orders were not raised before 31 March 2012 for works performed in FY 2011/12 due to staff oversight. As a result, AHPETC did not record these expenses in the correct financial year.

4.3 AGO’s checks showed that the amount of expenses relating to FY 2011/12 included in the FY 2012/13 lift repair expenses of \$1.63 million was \$63,902. The impact of this error on the FY 2012/13 financial statements was, therefore, not significant, i.e. the lift repair expenses were overstated by \$63,902 (3.9%).

4.4 AHPETC informed AGO that with the implementation of its Work Order System module on 1 April 2012 for non-routine works and 1 October 2012 for routine works, lift repair expenses would be accounted for in a timely manner.

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5 Lift Upgrading Program

Disclaimer Reported by FKT

“Included in the lift upgrading program of \$18,612,857, under sinking fund expenditure were expenses relating to the previous financial year. As a result, the current year’s LUP expenditure has been overstated accordingly. Management did not ascertain the quantum of prior year’s expenses that was included in the current year’s financial statements. Accordingly, we are unable to determine the accuracy of the lift upgrading expenses of \$18,612,857 recorded in the year under audit.”

Observation

5.1 AGO’s checks revealed that the lift upgrading program (LUP) expenses were overstated by \$8.38 million (i.e. 45%) for FY 2012/13 as AHPETC did not make the necessary accruals in earlier financial years.

5.2 The LUP expenses of \$18.61 million reflected in FY 2012/13 financial statements should be charged to the relevant financial years as follows:

Table 4: Breakdown of LUP expenses

Financial Year	Amount (\$ million)
2010/11	0.24
2011/12	8.14
2012/13	10.23
Total	18.61

5.3 According to AHPETC, it had not recognised the LUP expenses in the earlier financial years which amounted to \$8.38 million as it disputed some of the billings issued by HDB for AHPETC’s share of the LUP expenses. AGO had confirmed with HDB and verified that AHPETC had fully paid HDB the LUP expenses of \$18.61 million by May 2013.

5.4 The responsibility for preparation of financial statements lies with the Town Council. The Singapore Financial Reporting Standards¹² require a reporting entity to give its best estimate of the expenses incurred in the financial year and accrue the amounts in the accounting records. Without accruing the expenses in the relevant financial years, AHPETC did not correctly reflect in its financial statements the LUP expenses from FY 2010/11 to FY 2012/13.

¹² Section 36(1) of the Town Councils Act requires a Town Council to prepare financial statements in such form as the Auditor-General may direct. The Auditor-General has directed that Town Councils prepare their financial statements in accordance with the Singapore Financial Reporting Standards (SFRS).

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6a Creditors and Accrued Expenses

Disclaimer Reported by FKT

“(6) Creditors and Accrued Expenses

(a) For non-routine works, the Town Council records the accrued liabilities for the services rendered by the vendors only when the work orders are issued by the Town Council’s project managers. The Town Council does not have any Standard Operating Procedures to enable timely recording of liabilities. As a result, we are unable to ascertain the completeness of the liabilities as at 31 March 2013.”

Observation

6.1 AGO found that AHPETC had Standard Operating Procedures (SOP) for non-routine works, but the SOP did not stipulate a timeline for verification works to be done by property officers after job sheets were received to enable timely issuance of work orders. Since liabilities would be recorded only after work orders were issued, the liabilities and expenses in the accounting records could be understated if work orders were not issued timely.

6.2 AGO’s test checks of 16 work orders issued in April and May 2013 revealed that six work orders were not issued in a timely manner. These work orders amounting to \$9,426 were issued between 56 and 191 days after the job sheets were prepared by the contractors. AHPETC was not able to provide to AGO at the time of audit, the reasons for delays in issuance of these six work orders.

6.3 AHPETC did not have adequate guidelines to ensure that there was timely verification of works and issuance of work orders. As such, there was no assurance that liabilities and expenses were recorded in the appropriate accounting period. Consequently, the financial statements may not accurately reflect the transactions pertaining to non-routine works.

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6b Creditors and Accrued Expenses

Disclaimer Reported by FKT

“(6) Creditors and Accrued Expenses

(b) As at 31 March 2013, included in accrued expenses was an amount of \$338,379 pertaining to “Accrual without work orders” brought forward from Aljunied Town Council in August 2011. The Town Council was unable to provide details of these amounts. Accordingly, we are unable to ascertain the validity of these amounts.”

Observation

6.4 AGO’s checks revealed that a substantial amount of “Accrual without work orders” as at 31 March 2013 had been paid or settled but AHPETC did not match and reverse out the amounts accordingly from its accrued expenses. Consequently, the accrued expenses as at 31 March 2013 were overstated.

6.5 According to a document¹³ provided by AHPETC to FKT and AGO, the amount of \$338,379 pertained to balances brought forward from ATC. AHPETC informed AGO that it was not able to provide details of the “Accrual without work orders” included in the accounts handed over by CPGFM, the previous managing agent, as it did not have the supporting documents.

6.6 Upon AGO’s request for details of the \$338,379, AHPETC provided AGO with two schedules. AGO’s analysis of the schedules revealed that only \$178,185 of the \$338,379 pertained to balances brought forward from ATC. The remaining \$160,194 was recorded by AHPETC after July 2011 for expenses incurred in FY 2011/12. AGO’s test checks revealed overstatement of accrued expenses by \$162,112 (see details in paragraphs 6.8 and 6.10).

Accrual without work orders brought forward from ATC

6.7 AGO found from its test checks on the \$178,185 balance brought forward from ATC that invoices amounting to \$150,565 had either been paid by AHPETC in February 2012 or cancelled by vendors. However, AHPETC did not reverse out the accrued expenses, resulting in an overstatement of \$150,565.

6.8 Of the balance brought forward from ATC, AGO’s checks on the four largest amounts totalling \$168,434 revealed the following:

- a. Accrual without work orders amounting to \$81,910 pertained to precincts under AMKTC and not AHPETC. The vendor, Seng Foo Building Construction Pte Ltd, had cancelled its two invoices dated 24 August 2010 on 9 April 2013.

¹³ “Accruals GL Code 43180 Reconciliation for the Year Ended 31 March 2013”

- b. HDB confirmed that AHPETC had paid the amount owing to HDB, totalling \$47,731 in February 2012.
- c. Accrual without work orders amounting to \$20,924 pertained to three invoices issued by Cerberus Security Pte Ltd. The vendor informed AGO that it had cancelled two of its invoices dated 9 November 2010 by issuing a credit note to AHPETC on 6 June 2012. The vendor also informed AGO that it had cancelled the third invoice dated 9 November 2010 but was unable to provide AGO with any correspondence regarding the cancellation.
- d. Paya Lebar Citizens Consultative Committee (PLCCC) informed AGO that it did not have any records showing that AHPETC owed PLCCC amounts totalling \$17,870.

Accrual without work orders recorded by AHPETC

6.9 For the \$160,194 accrued expenses recorded by AHPETC after July 2011 for FY 2011/12 (as mentioned in paragraph 6.7), AGO noted that AHPETC had made payments in FY 2012/13. However, AHPETC only reversed out \$148,647 from the accrued expenses in FY 2012/13 but not the remaining balance of \$11,547. Thus, there was an overstatement of accrued expenses by \$11,547.

6.10 AHPETC did not take adequate steps to ensure that accrued expenses in the accounting records were accurate. The accounting records for accrued expenses did not correctly reflect the amounts due to external parties. Consequently, there is no assurance that AHPETC had accurately accounted for the relevant transactions.

6c Creditors and Accrued Expenses

Disclaimer Reported by FKT

“(6) Creditors and Accrued Expenses

(c) As at 31 March 2013, included in other payables was an amount of \$308,715 relating to temporary receipts from residents and Housing and Development Board. The Town Council was unable to provide details of this amount. Accordingly, we are unable to ascertain the validity of these amounts.”

Observation

6.11 AGO found that there were poor monitoring and lack of due diligence by AHPETC in following up on items in a temporary clearing account. This clearing account was classified under other payables.

\$308,715 of temporary receipts

6.12 AGO observed from a schedule provided by AHPETC that the amount of \$308,715 in the temporary clearing account comprised mainly receivables and monies received by AHPETC (i.e. receipts) as shown below:

Table 5: Breakdown of amount of \$308,715 in temporary clearing account

Description	Amount (\$) (Debit Entries)	Amount (\$) (Credit Entries)
Recorded by ATC:		
Singapore Post SAM collections (i.e. amount due from SingPost)	86,822	
Recorded By AHPETC:		
Adjusting entries	29,563	
Payment from HDB		283,441
Payment from NEA		548
Unexplained difference between bank statements and accounting records		63,458
Others		77,653
Total	116,385	425,100
Net Total	308,715 (Credit Balance)	

6.13 According to AHPETC, some receipts were recorded in the temporary clearing account as the nature of these receipts could not be identified; AHPETC would need to check with the payers on the nature of the receipts before it could reflect the receipts in the correct

accounting records. AGO's test checks revealed that some of the items recorded in the temporary clearing account were not investigated and identified promptly, as detailed below.

Singapore Post SAM collections

6.14 Included in the temporary clearing account was an amount due from Singapore Post (SingPost) totalling \$86,822 brought forward from ATC. AGO found that the amount pertained to C&S fees collection and had been paid into AHPETC's bank account on 15 August 2011. However, 19 months after receiving the payment from SingPost, there was no evidence to show that AHPETC had recorded the receipt in its accounting records.

Adjusting entries

6.15 AGO could not determine the nature of adjusting entries amounting to \$29,563 from the schedule provided by AHPETC. AGO requested from AHPETC on 5 May 2014 for supporting documents to perform test checks on 11 items. As of 21 July 2014, AHPETC was only able to provide AGO with some documents pertaining to one item. However, the amount reflected on the documents did not match the amount of the item reflected on the schedule. For the other 10 items, AGO could not carry out any checks due to the lack of supporting documents.

Payments from HDB and NEA

6.16 AHPETC informed AGO that the payments of \$283,441 received from HDB in October 2012 and \$548 received from NEA in June 2012 had been matched in December 2013 to the corresponding receivables in its accounting records. AHPETC had since made the necessary adjustments to the accounting records in December 2013, more than a year after the monies had been received by AHPETC from HDB and NEA.

Others

6.17 AGO noted that AHPETC had received \$17,600 of the \$77,653 under the "Others" description between June 2012 and February 2013. AGO found that these payments were for receivables recorded under Sundry Debtors. However, AHPETC had recorded the receipts in the temporary clearing account instead of matching and reversing out the receivables recorded under Sundry Debtors.

6.18 For the remaining balance of \$60,053, on 5 May 2014, AGO requested AHPETC for supporting documents to perform test checks on nine samples amounting to \$58,880 and was provided with documents on 21 July 2014 for seven samples amounting to \$35,925. AGO noted that for six samples, AHPETC could have identified the parties that made the payments and should have taken action to ascertain the nature of these receipts in order to update its accounting records correctly.

6.19 For the other sample, the supporting documents revealed that the amount of \$9,800 was in relation to invoices issued by a vendor in July 2012. AHPETC should take action to ascertain whether the amount is still outstanding.

6.20 AHPETC was not able to provide AGO with the documents requested for the remaining two samples amounting to \$22,955. Hence, AGO could not carry out any checks to ascertain the nature of these unidentified receipts.

Unexplained difference between bank statements and accounting records

6.21 AHPETC had recorded the unexplained difference of \$63,458 between bank statements and accounting records on cash and bank balances reported by FKT in its auditor's report for FY 2012/13 (see Disclaimer 10), in the temporary clearing account in June 2013.

6.22 AHPETC informed AGO that it had identified some receipts and payments contributing to the unexplained difference of \$63,458 and had removed the amounts correspondingly from the temporary clearing account.

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7 Conservancy and Service Fees Received in Advance

Disclaimer Reported by FKT

“As at 31 March 2013, there were advance receipts from residents in respect of conservancy and service charges amounting to \$507,809. We are unable to determine the validity and accuracy of this amount as the Town Council was unable to provide details of this amount.”

Observation

7.1 AGO found that there were inadequacies in AHPETC’s accounting system which had affected the Town Council’s ability to provide the information required by FKT to verify that the amount included as C&S fees paid to AHPETC in advance (advance receipts) is correct.

7.2 According to AHPETC, it was unable to generate a report showing a breakdown of the advance receipts of \$507,809 by individual commercial and residential units as requested by FKT. The IT vendor which maintained the accounting system for AHPETC informed AGO that there was a program bug. The program bug had caused some of the advance receipts made by residents at the counter to be incorrectly recorded under receivable accounts instead of C&S fees received in advance account. As a result, AHPETC was not able to provide an accurate breakdown of the C&S advance receipts in the accounting records to FKT.

7.3 AHPETC also informed AGO that it was unable to produce the information for FKT as the receipts collected each day were updated to the accounting records (i.e. the General Ledger) as a total amount without details on the individual receipts (i.e. batch posting). AHPETC would need to manually extract the information required by FKT from voluminous hard copy reports.

7.4 AHPETC updated AGO that it had rectified the program bug in May 2013 and started to post individual receipts to its accounting records since October 2013. However, according to the IT vendor, the system was still not able to generate the breakdown by individual units of the advance receipts reflected in the accounting records (i.e. the General Ledger) as of July 2014.

7.5 Of the \$507,809, AGO noted that \$284,625 was automatically recorded by the system into the accounting records as advance receipts after payments were received from residents. The remaining \$223,184 was an adjustment made by AHPETC to correct the advance receipts wrongly recorded in receivables accounts (see paragraph 7.2). However, AHPETC was not able to provide supporting documents for AGO to carry out test checks on both amounts. According to AHPETC, records of advance receipts in the accounting system were updated constantly and would reflect the latest status. Hence, AHPETC would not be able to provide records supporting the amounts of C&S fees paid in advance in the earlier accounting periods to AGO. As a result, AGO could not ascertain the validity and accuracy of the \$507,809.

7.6 There were inadequacies in AHPETC's accounting system and AHPETC was not able to provide the information required by FKT. Consequently, FKT was not able to determine the validity and accuracy of advance receipts.

8 Income Taxes

Disclaimer Reported by FKT

“As at 31 March 2013, provision for income tax totalled \$756,383.

During the current financial year, the Town Council paid \$77,407 in respect of the tax payable by Hougang Town Council for the year of assessment 2012. At the time of handover of operations on 26 May 2011, there was no provision for tax payable made.

In addition, during the current year, \$383,688 and \$429,271 were paid by Aljunied Town Council for the years of assessment 2011 and 2012 respectively. The provision for tax recorded in the accounting records for years of assessment 2011 and 2012 were \$474,669 and \$445,425 respectively.

Due to the matters mentioned above, we are unable to determine the validity and accuracy of tax provisions totalling \$756,383 as at 31 March 2013.”

Observation

8.1 AGO found that AHPETC did not carry out reconciliation of its tax provisions and correctly reflect the amount in its accounting records. Such reconciliation should be performed at least once at financial year end to ensure that the provisions are accurate.

8.2 AGO observed that AHPETC did not reconcile the tax provisions made in the accounting records to the actual tax levied by IRAS in its notice of tax assessment for each year of assessment (YA). As a result, any over-provision or under-provision of taxes for each YA was not adjusted after tax assessment was received, which would render the provision amount incorrect.

8.3 Based on IRAS' statements of accounts, AGO noted that a net over-provision of \$158,115 for FY 2010/11 and earlier was not reversed out from the accounting records. In addition, based on notices of tax assessment dated 14 October 2013 and 4 February 2014, there was an under-provision of income tax of \$382,621 for FY 2011/12. After adjusting for the above under and over-provisions, the net provision for income tax as at 31 March 2013 should be \$980,889 instead of \$756,383 as reflected in the FY 2012/13 financial statements (i.e. there was a net under-provision of \$224,506).

8.4 AHPETC informed AGO that it had since engaged a tax agent to prepare the income tax computations for FY 2012/13 and FY 2013/14.

8.5 AHPETC did not take adequate steps to ensure that tax provisions in the accounting records were accurate. The inaccurate provisions for tax would mean that there is no assurance that the figures reflected in the financial statements of AHPETC are accurate. The responsibility for preparation of financial statements lies with the Town Council. For proper accounting, the Town Council should carry out reconciliation between tax provisions in the

accounting records and the tax levied by IRAS promptly and make necessary adjustments to the accounting records.

9 Goods and Services Taxes

Disclaimer Reported by FKT

“There were unexplained differences amounting to \$518,707 between the GST balances recorded in the Town Council’s accounting records and the GST returns submitted to the Comptroller of GST. Accordingly, we were unable to determine the validity and accuracy of the GST payable of \$518,707 as at 31 March 2013.”

Observation

9.1 AGO found that AHPETC did not carry out reconciliation of its GST balances between its accounting records and the quarterly GST returns submitted to IRAS. Such reconciliation should be performed at least once at financial year end, preferably once a quarter, to ensure that the GST provisions are accurate.

9.2 AGO found that two figures reflected in the disclaimer did not agree with the relevant documents and/or accounting records. First, the unexplained differences between the GST balances recorded in AHPETC’s accounting records and the GST returns submitted to IRAS for each of the four quarters in FY 2012/13 totalled \$336,656, and not \$518,707 (as reflected in the first statement of the above mentioned disclaimer). FKT informed AGO that the wrong figure was due to typographical error.

9.3 Second, the GST payable as at 31 March 2013 reflected in the accounting records was \$535,857 and not \$518,707 as indicated in the second statement of this disclaimer. FKT informed AGO that its figure in the disclaimer was based on GST payable in the accounting records before audit adjustments.

9.4 AGO noted that IRAS had queried AHPETC in May 2013 on its GST submissions for FY 2011/12 and FY 2012/13. Based on IRAS’ assessment finalised in December 2013, the GST payable as at 31 March 2013 was \$806,718, comprising fourth quarter FY 2012/13 GST amount of \$474,121 and over-claims for FY 2011/12 and first three quarters of FY 2012/13 of \$332,597. The over-claims by AHPETC were mainly due to AHPETC not applying the apportionment formula in deriving the input tax claimable. As a result, AHPETC was fined \$26,700 and charged with a late payment penalty of \$16,630.

9.5 AHPETC had paid the GST for fourth quarter of FY 2012/13 in May 2013 and all the over-claims, fine and penalty by February 2014.

9.6 AHPETC did not take adequate steps to ensure that GST provisions in the accounting records were accurate. This would affect the accuracy of the figures reflected in the financial statements of AHPETC. The responsibility for preparation of financial statements lies with the Town Council. For proper accounting, AHPETC should reconcile the GST balances in its accounting records to the GST returns submitted to IRAS promptly and make necessary adjustments to the accounting records. Such reconciliation would enable AHPETC to identify and make adjustments for any over-provision or under-provision to the accounting records.

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10 Cash and Bank Balances

Disclaimer Reported by FKT

“Out of the \$67,589 unexplained difference noted during the March 2012 bank reconciliation, \$63,458 of remained un-reconciled. The balance of \$63,458 has been included in other payables as at 31 March 2013.”

Observation

10.1 AGO found that AHPETC had not performed monthly bank reconciliations in the manner prescribed by rule 32(2) of the Town Councils Financial Rules (Cap. 329A, R1), which required a bank reconciliation statement to be prepared for each account at least once a month. In addition, AGO observed that AHPETC had not carried out bank reconciliations on a timely basis.

FY 2011/12

10.2 For the period August 2011 to March 2012, AHPETC did not carry out monthly bank reconciliations for each of its four bank accounts maintained for operating purposes (i.e. operating funds). AHPETC could only provide AGO with monthly bank reconciliation statements prepared on a consolidated basis for all four bank accounts. AHPETC informed AGO that it started from March 2012 onwards to reconcile on a consolidated basis the monthly bank balances in the accounting records to the bank statements for the months of August 2011 to March 2012 but was not able to reconcile the balances.

10.3 In addition, AHPETC had two bank accounts for sinking funds. AHPETC provided AGO with a year-end reconciliation for one of the bank accounts and monthly bank reconciliations for the other bank account.

10.4 AGO noted that all the above bank reconciliation statements for FY 2011/12 furnished by AHPETC to AGO were not dated to show when they were prepared and there was no sign-off to indicate that the bank reconciliations had been reviewed by another officer. It is a good control practice for bank reconciliation to be independently reviewed and for the reviewer to sign off and date on the bank reconciliation statement as evidence of review.

FY 2012/13

10.5 For FY 2012/13, AGO observed that AHPETC had not performed monthly bank reconciliations in the manner prescribed by the Town Councils Financial Rules. AGO noted that for the four accounts of operating funds maintained with two banks (two accounts each), AHPETC had carried out reconciliation for the months of April 2012 to March 2013 on a consolidated basis at bank level instead of by individual bank account. AGO noted that AHPETC did not differentiate transactions according to the different accounts of each bank in its accounting records.

10.6 In addition, AGO observed that the bank reconciliations for bank accounts of operating and sinking funds were not carried out on a timely basis as described below:

- a. Monthly reconciliations for bank accounts of operating funds were carried out 2.7 to 9.9 months after the respective month end.
- b. 8 out of 12 monthly reconciliations for one bank account of sinking funds were carried out 1.3 to 5.0 months after the respective month end. One of the remaining four monthly bank reconciliations was not dated.
- c. 11 out of 12 monthly reconciliations for the other bank account of sinking funds were carried out 1.3 to 6.9 months after the respective month end.

10.7 AHPETC informed AGO that it had identified some receipts and payments contributing to the un-reconciled balance of \$63,458 and would continue to investigate on the outstanding un-reconciled balance.

10.8 AHPETC did not comply with the Town Councils Financial Rules as it did not prepare bank reconciliation statements for each bank account at least once a month. Preparing bank reconciliation statements at least once a month would enable any differences between the accounting records and the bank statements to be investigated and addressed promptly.

11 Transfer to Sinking Funds

Disclaimer Reported by FKT

“The Town Council did not comply with Section 4(2B)(a) of the Town Councils Financial Rules. The financial rule states that within one month from the end of each quarter of each financial year, the Town Council shall transfer to the bank account of the sinking funds established for the residential and commercial property within the Town, the amount of conservancy and service charges, grants-in-aid and interest that are payable to the sinking funds and that were received by the Town Council.

During the current financial year, the Town Council had not transferred any amounts of conservancy and service charges to the bank account of the sinking funds.”

Observation

11.1 AGO found that AHPETC had not complied with the Town Councils Financial Rules (TCFR) as it did not make the necessary transfers to bank accounts of sinking funds within one month from the end of each quarter for FY 2012/13 and the last three quarters of FY 2011/12.

11.2 AGO observed that AHPETC had paid for sinking funds expenditure from bank accounts of both operating funds and sinking funds. In computing the transfers to sinking funds, AHPETC had deducted sinking funds expenditure paid from bank accounts of operating funds, from the amounts payable to the sinking funds; the C&S fees and grants for FY 2011/12 and FY 2012/13 payable to sinking funds were \$15.73 million and \$14.86 million respectively. This approach had made the computation of the amounts to be transferred to the bank accounts of sinking funds complicated. It would be less complicated if AHPETC had transferred the full amounts to the bank accounts of sinking funds when due and pay sinking fund expenditures directly from these bank accounts.

FY 2012/13

11.3 AGO observed that in FY 2012/13, AHPETC only transferred \$1.50 million to a fixed deposit account of its sinking funds on 13 February 2013. There were no other transfers to bank accounts of sinking funds.

11.4 FKT had in its disclaimer stated that AHPETC had not transferred any amounts to the bank account of sinking funds. According to FKT, during its audit it was informed by AHPETC that no transfer to bank accounts of sinking funds was made for FY 2012/13.

11.5 AGO noted that nine months after FY 2012/13 had ended, AHPETC transferred \$2.74 million to its bank accounts of sinking funds on 16 January 2014. AGO carried out checks on AHPETC’s transfer and found errors in AHPETC’s computation of \$2.74 million.

11.6 Subsequently, AHPETC informed AGO that it had recomputed the amount to be transferred to bank accounts of sinking funds and had transferred an additional \$4.18 million

on 30 June 2014. AGO noted that the \$4.18 million included \$2.98 million transfer to make good Neighbourhood Renewal Programme (NRP) expenses wrongly paid from bank accounts of sinking funds (elaborated in paragraph 11.13).

11.7 AGO's test checks did not reveal any further errors in AHPETC's computations. However, AGO noted from its test checks that there were other non-compliance with the Town Councils Act and lapses in the manner AHPETC managed its bank accounts of sinking funds. Details are in paragraphs 11.13 to 11.17.

FY 2011/12

11.8 AGO's checks on FY 2012/13 bank transactions showed that there was no transfer of moneys to AHPETC's bank accounts of sinking funds in April 2012. AGO followed up and found that AHPETC did not make any transfer to its bank accounts of sinking funds for the last three quarters of FY 2011/12¹⁴. As for the first quarter of FY 2011/12, AGO was informed by CPGFM, the previous managing agent that it had transferred \$4.80 million to bank accounts of sinking funds in July 2011 for precincts under ATC. According to CPGFM, the \$4.80 million transferred was for C&S fees and grants allocated to sinking funds for the first quarter of FY 2011/12 totalling \$4.02 million and other items, such as claim of GST input tax for sinking funds expenditures, amounting to \$0.78 million.

11.9 Following AGO's query, AHPETC informed AGO that it had transferred an additional \$7.44 million on 30 June 2014 for FY 2011/12.

11.10 AGO found errors in AHPETC's computation of \$7.44 million for two amounts which it deducted from the sinking fund to be transferred. As a result of the errors, there was a shortfall of \$0.46 million in the transfer made by AHPETC to the bank accounts of sinking funds as elaborated below:

Table 6: Errors in AHPETC's computation of \$7.44 million transfer

S/N	Description	AHPETC's computation (\$ million)	AGO's computation (\$ million)	Shortfall in AHPETC's transfer (\$ million)
1	Deduction for transfer to bank accounts of sinking funds, for C&S fees and grants allocated to sinking funds, made by CPGFM	(4.18)	(4.02)	0.16
2	Deduction for C&S fees that need not be transferred to the bank accounts of sinking funds as they were not yet received ¹⁵ .	(0.89)	(0.59)	0.30
Total amount				0.46

¹⁴ AHPETC's non-compliance with the Town Councils Financial Rules was not highlighted in the auditor's report for AHPETC's FY 2011/12 financial statements.

¹⁵ The amount was computed by taking the difference between ending and opening balances of C&S fees receivables that were allocated to sinking funds.

11.11 With regard to S/N 1 in Table 6, AHPETC had in its computation deducted the amount of \$4.18 million from the total amount that AHPETC was required to transfer to the bank accounts of sinking funds for FY 2011/12. AHPETC had derived the amount of \$4.18 million from the audited financial statements for 1 April 2011 to 31 July 2011 of ATC's four precincts¹⁶ and assumed that CPGFM had transferred \$4.18 million to the bank accounts of sinking funds. However, CPGFM had only transferred \$4.02 million for April to June 2011, (as mentioned in paragraph 11.8). Accordingly, there was a shortfall of \$0.16 million in the transfer made by AHPETC to the bank accounts of sinking funds, which AHPETC should make good.

11.12 With regard to the computation of the deduction amount stated in S/N 2 of Table 6, AGO noted that AHPETC had not taken into account the opening balances of C&S fees receivables for precincts taken over (i.e. Kaki Bukit and Hougang). Consequently, there was another shortfall of \$0.30 million in the transfer made by AHPETC to the bank accounts of sinking funds, which AHPETC should make good.

Non-compliance with the Town Councils Act

11.13 AGO noted that NRP expenses of \$3.19 million incurred in FY 2012/13 were paid from bank accounts of sinking funds. NRP expenses should not be paid from the bank accounts of sinking funds under the Town Councils Act and the Town Councils (Disbursement of Moneys from Sinking Fund) Rules (Cap. 329A, R5). Although AHPETC subsequently transferred \$2.98 million on 30 June 2014 to bank accounts of sinking funds, AGO noted that the amount had excluded GST of \$0.21 million. AHPETC should make good the GST paid from bank accounts of sinking funds.

11.14 Separately, AGO observed that AHPETC had transferred \$4.80 million of NRP grants kept in the bank accounts of operating funds to bank accounts of sinking funds in March 2013. According to MND, there is no requirement for Town Councils to transfer NRP grants received to the bank accounts of sinking funds.

Other lapses

11.15 There was no evidence that AHPETC had transferred into bank accounts of sinking funds, any GST input tax claimed from IRAS relating to sinking funds expenditures paid from the bank accounts of sinking funds for FY 2011/12 and FY 2012/13. AGO noted that all GST payments from IRAS were made to the bank accounts of operating funds. GST input tax claimable for sinking funds expenditure paid from bank accounts of sinking funds for FY 2011/12 and FY 2012/13 could be as high as \$0.64 million and \$0.89 million respectively, as elaborated below.

¹⁶ Bedok Reservoir-Punggol, Paya Lebar, Eunos and Serangoon

Table 7: Estimated GST input tax not transferred into bank accounts of sinking funds

Description		FY 2011/12 (\$ million)	FY 2012/13 (\$ million)
Sinking funds expenditure for the year	[A]	12.41	22.06
Less: Sinking funds expenditure paid from bank accounts of operating funds	[B]	(3.21)	(9.37)
Estimated sinking funds expenditure paid from bank accounts of sinking funds	[A-B]	9.20	12.69
Estimated GST input tax claimable ¹⁷ for sinking funds expenditure paid from bank accounts of sinking funds	7% x [A-B]	0.64	0.89

11.16 AGO also observed from its test checks, two instances where AHPETC had wrongly deposited into one bank account of operating funds the principal and interest of sinking funds fixed deposits amounting to \$5.27 million which had matured (see S/N 1 & 2 of Table 8 below). Furthermore, AHPETC had transferred to a bank account of operating funds an amount of \$0.22 million from a bank account of sinking funds that was closed (see S/N 3 of Table 8 below).

Table 8: Sinking funds deposits wrongly deposited into the bank account of operating funds

S/N	Date of remittance	Amount (\$ million)
<u>Sinking Funds Fixed Deposits which had matured</u>		
1	6 June 2012	5.02
2	23 July 2012	0.25
<u>Deposit in bank account of sinking funds that was closed</u>		
3	30 January 2013	0.22
Total		5.49

11.17 Sinking funds fixed deposits which had matured and not renewed should be deposited into bank accounts of sinking funds. AGO noted that AHPETC subsequently made a sinking funds fixed deposit placement of \$5.00 million on 4 October 2012 from the bank account of operating funds. Hence, AHPETC should transfer back the remaining \$0.49 million, after deducting the \$5.00 million placement from the \$5.49 million wrongly deposited (reflected in Table 8) to bank accounts of sinking funds.

11.18 AHPETC did not comply with the Town Councils Act as it had made disbursements from its sinking funds bank accounts for NRP expenses which were not disbursements allowed under the Town Councils Act and Town Councils (Disbursement of Moneys from Sinking Fund) Rules. AHPETC had also breached the Town Councils Financial Rules by not making the transfers of moneys to the bank accounts of sinking funds within one month from the end of each quarter of each financial year. Transfers to bank accounts of sinking funds

¹⁷ Assuming all sinking funds expenditures are subject to GST and the full GST input tax is claimable.

should be made promptly so that moneys can be set aside for the Town Council's long-term maintenance needs.

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12 Related Party Transactions

Disclaimer Reported by FKT

“The Town Council had not made available to us details of the project management service fees paid to a related party. Accordingly, we are unable to determine the completeness of the related party disclosures as disclosed in Note 22 of the financial statements.”

Observation

12.1 AHPETC did not comply with the Singapore Financial Reporting Standards which require the nature of related party transactions and the amounts involved to be disclosed. AHPETC’s disclosure of related party transactions in the financial statements was incomplete as explained below.

12.2 AHPETC disclosed in its financial statements the appointment of its related party, FM Solutions and Services Pte Ltd (FMSS)¹⁸ as its managing agent and the fees incurred. AHPETC also disclosed the fact that FMSS rendered project management services to AHPETC but did not provide the amount involved.

12.3 According to FKT, *“AHPETC had refused to disclose on the basis that other TCs [Town Councils] did not disclose the PM [project management service] fees so AHPETC did not see why they had to make the disclosure.”*

12.4 AHPETC informed AGO that it *“had no issue with the disclosure provided that ‘as a matter of principle’ all other TCs make the same disclosure since their MAs [Managing Agents] are also related parties.”*

12.5 AGO also found from its test checks on related party transactions that FMSS had provided essential maintenance and lift rescue services to AHPETC in FY 2012/13, but these transactions and the fees incurred were not disclosed in the financial statements. In addition, AGO noted from its checks that AHPETC had paid fees (amounting to \$88,200) to another related party, FM Solutions and Integrated Services (FMSI)¹⁹, for essential maintenance and lift rescue services rendered for the period April to June 2012. This related party transaction was not disclosed as well.

12.6 AGO’s checks revealed that the fees for project management services and for essential maintenance and lift rescue services billed by FMSS in FY 2012/13 amounted to \$0.22 million and \$1.19 million respectively.

¹⁸ The Secretary of AHPETC was the Managing Director of FM Solutions and Services Pte Ltd (FMSS). The General Manager of AHPETC, who was the spouse of the Secretary, was also a director of FMSS.

¹⁹ The Secretary of AHPETC was the owner of FM Solutions & Integrated Services which was a sole proprietorship. For the period 1 April 2012 to 30 June 2012, essential maintenance and lift rescue services for the precinct under the former Hougang Town Council was provided by FMSI before FMSS took over from 1 July 2012.

12.7 AHPETC did not comply with the Singapore Financial Reporting Standards, which require a reporting entity to disclose related party transactions in its financial statements.

13 Subsequent Events Review

Disclaimer Reported by FKT

“The Town Council had not made available to us its latest management accounts and records of minutes subsequent to the financial year end. Therefore, we were unable to carry out audit procedures to obtain sufficient appropriate audit evidence as to whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are properly reflected in this set of financial statements in accordance with Singapore Financial Reporting Standards.”

Observation

13.1 AHPETC failed to provide the information requested by FKT which was necessary for its audit. AGO found that AHPETC had only provided FKT with minutes of Council meetings held on 9 May 2013. Minutes of subsequent Council meetings held on 15 August 2013 and 14 November 2013 (before the auditor’s report was issued) and management accounts for November 2013 were not provided to FKT.

13.2 AGO noted that AHPETC had sent an email to FKT (carbon copied to Chairman of the Audit Committee of AHPETC) on 21 January 2014, indicating that *“The accounts for Nov 2013 that you [FKT] had requested for is not material to the finalizing of the audit . . . I would like to reiterate that in view of the already long delay in audit, there is no further need for you to verify anything further”*.

13.3 Upon request, AHPETC had made available to AGO the minutes of the Council meeting held on 15 August and 14 November 2013 as well as the management accounts for November and December 2013. AGO’s review showed that no significant matters were mentioned in these documents that would materially affect AHPETC’s FY 2012/13 financial statements.

13.4 AHPETC did not provide the information requested by FKT for its subsequent events review. AGO noted that common audit procedures for subsequent events review include review of management accounts and minutes of meetings subsequent to the financial year end. To enable a proper audit to be carried out, AHPETC should provide the required information to its auditor.

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AHPETC'S COMMENTS ON AUDIT OBSERVATIONS ON DISCLAIMER AREAS

1. General Remarks about the Audit

- 1.1 The past months since the commencement of the audit by the Auditor-General's Office (AGO) have been very challenging, as the Town Council (TC) dedicated its limited resources to facilitating the audit, including searching for voluminous information, some collated before the current management took over. This onerous task was undertaken concurrently with running a live operation.
- 1.2 Having read the AGO's draft findings on the 13 disclaimers by the TC's commercial auditors Foo Kon Tan Grant Thornton (FKT) in the Financial Statements of FY 12, we note that the AGO has managed to clear some of the disclaimers while shedding light on others.
- 1.3 The TC will benefit from the findings. We note that the AGO team took time and care to unravel some of the problems Aljunied-Hougang TC (AHTC) faced in FY 12. In our view, these breakthroughs were possible as the AGO team was able to exercise its powers under Audit Act to obtain information from government agencies and other parties. This has shed much light on the nature of the disclaimers to enable us to move forward and on which areas can be improved upon. The findings have also resulted in other parties having to take steps to rectify errors and omissions e.g. entities such as HDB having to reverse wrongful payments to other TCs that were due to AHTC.
- 1.4 Overall, the TC agrees with the AGO's findings to the effect that its financial management and reporting in FY 12 needed to be enhanced and improved upon. Some enhancements to reporting and controls have been done, while others are still work in progress requiring time to realize / complete. Indeed, the AGO audit in March 2014 inadvertently caused some of the enhancements already committed by the TC before the AGO audit to be deferred. For instance, in 2013, the TC had appointed an Audit Committee to enhance its financial management and internal controls; however, this Committee could not reasonably commence its work till the AGO audit is completed. In addition, some of the scheduled IT system enhancements had to be deferred due to both the key TC management and the IT system vendor being involved in the AGO audit.
- 1.5 Information about the assurance measures and improvements implemented / in the pipeline is in this document. By year-end 2014, the TC will also engage a public accounting firm / chartered accountant as consultant to review its financial reporting and controls, as an added assurance to ensure their adequacy.
- 1.6 What is clear from the AGO findings on the disclaimers is that no money has been found to be missing, nor has there been any criminal or dishonest activity uncovered. Instead, the observations show mistakes and omissions due to inadvertence, human error, IT system constraints and a lack of experience in dealing with certain scenarios. These occurred in FY 12 in the context of a deliberate decision by the new

management to prioritise the continuity of essential estate services in order to avoid disruptions to residents in the initial months after the take over from the previous management in August 2011.

AGO's further comments

1. AHPETC concluded that "What is clear from the AGO findings on the disclaimers is that no money has been found to be missing, nor has there been any criminal or dishonest activity uncovered...". AHPETC's broad conclusion cannot be derived from AGO's audit. AGO's audit was based on evidence that it had asked for and made available to AGO on the areas of audit. Through the audit, AGO found lapses in governance and compliance with requirements in Town Councils Act and Town Councils Financial Rules.
2. On AHPETC's comments that breakthroughs were possible as the AGO team was able to exercise its powers under the Audit Act to obtain information, AGO would like to point out that AGO had addressed most of the disclaimer areas using documents that were obtained from AHPETC. Further, for other information on the disclaimer areas, AHPETC could have followed up with external parties such as its vendors and government agencies to obtain information.
3. AHPETC claimed that AGO's findings have resulted in HDB having to reverse wrongful payments to other Town Councils that were due to AHPETC. This is an incorrect representation of AGO's findings in paragraphs 2.8 and 2.9 of the Report (Part I – AGO). Please refer to AGO's further comments in point 5 of section 2 below for clarification on the incorrect representation.

2. Opening Balances, Poor Information / Missing Information

- 2.1 Several of AGO's observations (such as the Opening Balances, Incomplete Records on Receivables) relate to incomplete or missing records / information.
- 2.2 As mentioned above, FY 12 (April 12 to Mar 2013) covered the first year of new operations that commenced wef Aug 2011. From just after the General Elections in May 2011 (GE2011), the new management had to upscale its operations very quickly to take over five new divisions by August 2011. One of the main challenges was the computer and financial system. The previous system in use, the Town Council Management System (TCMS), was terminated with short notice in June 2011 by Action Information Management Pte Ltd (AIM). The JD Edwards computer system in use in Hougang Single Member Constituency (Hougang SMC) had to be upscaled within less than three months to cater for town management at the Group Representation Constituency (GRC) level. The Hougang SMC system's capabilities were limited to what was required at an SMC, where some of the work could be

- handled manually due to the smaller scale of operations. While the TC's IT vendors worked hard with the TC to upscale the system to the GRC's needs, its development was concurrent with its being used for live operations. Human intervention and manual tracking were done to manage the situation, resulting in errors / gaps.
- 2.3 To compound matters, as a result of electoral boundary changes to Aljunied GRC for GE 2011, the TC (and its auditors) had to contend with segregating and aggregating information involving 3 other TCs — Ang Mo Kio TC (AMKTC), Pasir Ris Punggol TC (PRPGTC) and Marine Parade TC. The complications that arise from electoral boundary changes can be seen in AGO's observations at paras 2.6 to 2.9, that even the government housing authority, Housing and Development Board (HDB), wrongly paid to AMKTC and PRPGTC sums due to AHTC.
- 2.4 While some information was handed over from the former management in 2011, the current management is not able to confirm whether all the records signed off as handed over were indeed handed over or continued to be with the TC. We accept that the TC is responsible for keeping proper records, and that the TC should have done better in this respect. However, there were some factors that, although not exculpatory, were contributory. First, there was turnover of Finance staff in 2011 and 2012, including all those who signed for the Finance-related files from the former management. Secondly, there was an audit by Mazars LLP for the handover period April to July 2011 (when the TC was under the former management) that took place in September 2011, when some of the records would have been needed by Mazars. Nevertheless, we agree that more vigilance should have been exercised to ensure the correctness, completeness and retention of information handed over, including handing over procedures when the Finance staff resigned. The omission to exercise more care in record tracking and keeping was not deliberate, but due to the time constraints where key management attention was placed on prioritising operations and ensuring that essential services to residents were not disrupted.
- 2.5 With regard to the opening balances, the TC had informed AGO on 10 March 2014 that FKT had noted discrepancies between some of the opening balances recorded by Mazars (as at 1 April 2011) and the closing balances as at 31 March 2011 (which FKT audited for Aljunied TC for FY 10). This point was not addressed in AGO's findings.
- 2.6 For completeness, it should be noted that the TC had to move on with less than complete information. For instance, the TC was not able to provide an ageing analysis for service and conservancy receivables (para 3.1 to 3.6) because that NCS / AIM did not provide us with the necessary historical data despite being requested to. As a further example, the TC found some documents showing that a town park connector project "One Link@Aljunied" had been approved for government funding (under the Community Improvement Projects Committee (CIPC) scheme) and a tender called, but according to our records, this information was not declared in the Statement of Transferable Surpluses - Capital Commitments as at the day before Issue of Writ of Election.

2.7 *Improvements to Record Keeping and Tracking:*

- 1) Outgoing staff are required to sign an exit clearance form, including documents handed over, to their manager in charge / supervisor for verification before their final salaries will be paid.
- 2) The original Hougang IT system has seen many improvements since 2011. The receivable module was enhanced to handle collections and payments from AXS stations, SAM, credit card companies, CDC, and HDB. A comprehensive enhancement was also made to the work order system in April 2014 to better track work progress and related payments and to better tie in with the Accounts Payable module.
- 3) Tracking of GST payable and GST reporting is undergoing enhancement at the moment.
- 4) While advanced receipts and arrears accounts are being captured in the system, enhancement is in the works to facilitate better arrears reporting and management going forward.

2.8 Overall, the IT system at AHPETC is a 'work-in-progress' system that has served its purpose well despite its inherent limitations which are being addressed over time.

AGO's further comments

1. With regard to AHPETC's comments in paragraph 2.4 that some information was handed over from the former management, AGO noted that AHPETC took over the managing agent, CPG Facilities Management Pte Ltd (CPGFM) from the previous Town Council in May 2011, and subsequently appointed FM Solutions and Services Pte Ltd (FMSS) as the new managing agent in August 2011. According to CPGFM, it had handed over all documents pertaining to Aljunied Town Council to AHPETC in July and August 2011. As reported in paragraph 1.10 of the Report (Part I - AGO), AGO observed that AHPETC did not implement adequate procedures to ensure that accounting documents were properly taken over and safeguarded. AHPETC also did not have formal handing and taking over procedures when staff resigned.
2. AHPETC commented in paragraph 2.5 that AGO had not addressed a point on discrepancies in some of the opening balances noted by FKT. AGO would like to point out that FKT did not mention discrepancies in opening balances in its disclaimer. AGO had addressed FKT's concern stated in the disclaimer which was on the lack of audit evidence on opening balances. AHPETC was not able to provide AGO with accounting documents relating to the opening balances as reported by AHPETC in its financial statements. AGO's observations are detailed in paragraph 1 of the Report (Part I - AGO) on the disclaimer on opening balances.

3. On AHPETC's comments about "opening balances recorded by Mazars", AGO would like to point out that the financial statements which contained the opening balances, were prepared and signed by AHPETC (then known as AHTC). Hence, AHPETC was in a position to address and should have addressed the discrepancies and ensured that it had the evidence to support the opening balances reflected in the financial statements it prepared.
4. On the matter of incomplete information, AHPETC has commented that NCS/AIM did not provide AHPETC with the necessary historical data despite being requested to. AGO had addressed this matter in paragraphs 3.4 and 3.6 of the Report (Part I - AGO). According to AHPETC, it agreed to obtain transaction data for two years as it was assured by NCS that it could obtain additional data if required at a later date. AHPETC had not provided AGO with any documentation to show that AHPETC had taken further action to obtain the first five years of transaction data.
5. Pertaining to AHPETC's comment about the payments to AMKTC and PRPGTC by HDB, AGO did not conclude that HDB wrongly paid the sums due to complications that arose from electoral boundary changes. HDB had informed AGO that "Under the incidental and consequential provisions in the Town Councils (Declaration of Towns) Order and the Town Councils (Dissolution of Various Town Councils) Order, the rights, liabilities and agreements etc. of the handing over TC [Town Council] will automatically become that of the TC taking over". HDB would reimburse the Town Council "with the legal claim over the reimbursement ... unless otherwise instructed by the TC".

3. Receivables from Various Stakeholders

- 3.1 The TC is enlightened by AGO's unraveling of the receivables recorded as due from the Citizens Consultative Committee (CCC). The TC observes that this was achieved by the AGO dedicating a full-time team to trace the transactions and exercise its powers under the Audit Act to obtain information from the HDB and other TCs, resulting also in the discovery of sums wrongly paid by HDB to other TCs that were due to AHTC.
- 3.2 Of item 2c on Sundry Debtors, AHTC faced difficulty in tracking the large variety of transactions. As mentioned before, the chart of accounts used in Hougang SMC that was being adapted for AHTC had limited categories of transactions and had to be modified to cater for new transactions such as Revitalisation of Shops (ROS), schemes involving TC collaborations with National Environment Agency (NEA), Lift Upgrading Programme (LUP) and Neighbourhood Renewal Programme (NRP). Nevertheless, AHTC managed to trace \$1,502,534 of these as received.
- 3.3 The TC does not agree with the findings at para 2.29 and 2.30 on the receivables where invoices were rejected by HDB. After HDB's email of 2 Jan 2013, AHTC did respond to HDB on 3 and 4 Jan 2013. The TC did not agree that the rejected amounts were not claimable under HDB's co-payment scheme for facade repair, as the rejected

claims pertained to necessary waterproofing works that were part and parcel of the repairs. The TC is still of this view and would follow up with HDB on the same.

- 3.4 As for para 2.34 b, 10 of the invoices to HDB for facade repairs were rejected as HDB did not want to pay for thermal imaging when this was part of the methodology adopted for the repairs. The TC would be following up on this impasse with HDB.
- 3.5 The general finding on the need to follow up on receivables promptly is noted. The circumstances why these matters were not prioritized in FY 12 have been described earlier. Since September 2014, the TC has adopted a practice of management churning out every month a list of such debtors and appointing a Finance staff to follow up with debtors by issuing reminders on sums owed.

AGO's further comments

1. On AHPETC's comment that AGO's unravelling of the receivables recorded as due from CCC was achieved due to among other things, AGO's exercising of its powers under the Audit Act to obtain information, AGO's further comments on the matter are in point 2 of section 1 above.
2. Specifically for receivables recorded as due from CCC, AGO observed that HDB asked AHPETC to provide project details supporting the receivables but AHPETC did not do so. AHPETC had informed AGO that it was not able to identify the project details required by HDB as it did not have the supporting documents for these receivables. In this regard, AGO was able to identify the project details from documents provided by AHPETC and to follow up with HDB on the receivables using these project details. AHPETC could have done the same at that time but it did not. The observation above was reflected in paragraph 2.4 of the Report (Part I – AGO).
3. With regard to AHPETC's disagreement with AGO on an observation pertaining to invoices rejected by HDB (mentioned in paragraph 3.3 of AHPETC's comments above), AGO would like to add that during the audit, AGO had asked AHPETC for supporting documents and its follow-up action on the invoices. AHPETC did not provide AGO with the two emails which it mentioned in its comments.
4. AHPETC provided AGO with the two emails only after AGO had forwarded its observations to AHPETC for comments. AGO followed up with HDB and was informed that AHPETC subsequently re-submitted its invoices on 31 January 2013. HDB rejected these invoices for the same reason; that is the claims raised were for repairs of water seepage which were not covered under the co-payment scheme for repair of façade. HDB had informed AHPETC on 15 March 2013 of its rejection. AGO had asked for but was not provided with any evidence of further action by AHPETC from 15 March 2013 to the time of the Report (Part I - AGO).

4. Conservancy and Service Receivables

- 4.1 As noted in paras 3.1 to 3.6, the TC was hampered by lack of historical data in order to provide the ageing analysis. This was confirmed by the former TC's IT vendor's agent, NCS Pte Ltd (para 3.6). The steps TC has taken to generate ageing analysis are noted at para 3.10.

AGO's further comments

1. Pertaining to AHPETC's comments on the lack of historical data, AGO's further comments are in point 4 of section 2 above.

5. Lift Expenses

- 5.1 During the annual audit, the TC had given FKT all the hard copies of documents regarding lift repairs and lift upgrading bills, where the dates of the works were documented. The TC had not been asked to provide a listing of the works. The TC also had to work with a manual system for almost a year after the previous Works Order system under TCMS was terminated.
- 5.2 As for the Lift Upgrading Bills from HDB, the TC spent several months exercising due diligence to check and seek clarifications on the billings. The management (whose key staff were working in Hougang TC previously) was not familiar with the way HDB billed for LUP, as there had been no LUP done in Hougang SMC from 1991 to 2011 due to HDB's prevailing policy of deferring upgrading in opposition wards. It was noted that the management of the former Aljunied TC had also queried HDB on certain LUP bills and withheld payment, passing these onto the new management to process. The issue of LUP bills was raised in Parliament in March 2012, and several meetings were held with HDB right up till October 2012. These queries and checks were done in the exercise of due diligence to protect the TC, as the bills were very large (in the millions) to be paid out of public and residents' monies, and the terms of billings (such as being billed one year in advance in some cases) were questionable. Hence, some bills were carried over from FY11 to FY12.
- 5.3 Be that as it may, we note that the AGO was easily able to segregate the expenses to FY10, FY11 and FY12. This finding effectively removes a total of \$20.2 m from any concern.
- 5.4 *Improvement to Lift Expenses Processing:*
- 1) The TC implemented its Work Order System module in its IT system with effect from 1 April 2012 for non-routine works and 1 October 2012 for routine works (para 4.4). This would enable timely recording of such expenses.

- 2) Despite the TC's concerns about the Lift Upgrading bills, the TC had been more efficient in processing payments to HDB.

6. Creditors and Accrued Expenses

- 6.1 Findings noted. Though AGO noted that the TC had not exercised due diligence and been slow to follow-up on the various items, this had not been deliberate. This was a result of having to prioritise the essential services during the initial take over months.
- 6.2 AHTC was using a manual system to track both routine and non-routine expenses pending the development of a Works Order System. Given the size of a GRC and the high volume of transactions, the manual system had its limitations and accrual problems arose.
- 6.3 When the new Works Order System was implemented in 2012, appropriate SOPs were rolled out. TC is enhancing its SOPs to put in time lines to verify works and issue works orders.
- 6.4 As regards disclaimer 6c, the TC had cleared up \$283,989 of the \$308,715 unexplained receipts (see para 6.16). The TC will put in resources to clear the remaining unexplained receipts in disclaimer 6c.

7. Conservancy and Service Fees Received in Advance

- 7.1 Findings on the inadequacy of the TC's IT system to handle this reporting are noted. The system enhancement is still work in progress. However, this inability to churn out the total amount paid in advance should not be misunderstood as a lack of records by household, as the TC has records of payments and advance payments for each household.

8. Income Taxes

- 8.1 Findings are noted. The TC has engaged a tax agent (para 8.4) to assist.

9. Goods and Services Tax

- 9.1 Findings are noted. Some of the problems arose because the former Finance Manager familiar with GST submissions had resigned. As a step forward, several of the TC Finance team are now familiar with the apportionment formula (para 9.4). The TC will work with IT Vendor to split the GST for routine and sinking fund income / expenses in the system.

10. Cash and Bank Balances

- 10.1 Findings noted.
- 10.2 When Aljunied-Hougang Town was formed in 2011, the merger resulted in the TC inheriting several bank accounts from the former management, in addition to those from Hougang TC. These accounts were mainly with DBS Bank and United Overseas Bank and were used for receipts and payments. To rationalize the accounts, the TC decided to close unnecessary accounts, leaving only a total of 4 such accounts — one Operating Fund account and one Sinking Fund account each with DBS and UOB.
- 10.3 Since mid-2013, the TC has been doing monthly bank reconciliation at the account level for each of these 4 accounts.

11. Sinking Fund Disclaimer

- 11.1 We acknowledge the AGO's findings and advice regarding the management of Sinking Funds in FY11 and FY12. It was also found that at all times, the monies were still in the TC's bank accounts — it was just that the monies were left in Operating Fund accounts rather than transferred into the Sinking Fund bank accounts.
- 11.2 We have also noted AGO's observation at para 11.2 that the TC's practice of leaving the monies in the Operating Fund accounts and making Sinking Fund payments out of the Operating Fund accounts made the Sinking Fund transfer calculations "complicated", since it would be necessary to calculate the net amount to be transferred after deducting Sinking Fund expenses made. We will abide by the advice to transfer sums due to Sinking Fund first and make all Sinking Fund payments out of Sinking Fund accounts. We have also rectified the mistake of recognizing Neighbourhood Renewal Programme (NRP) as a Sinking Fund item when there was no such requirement — the NRP funds are now received and paid out of Operating Funds.
- 11.3 We note that the AGO has found that, for FY 12, there was in fact a transfer of \$1.5m into a Sinking Fund fixed deposit. This is contrary to FKT's disclaimer that no transfers were made at all in FY 12.
- 11.4 One significant fact not highlighted by the AGO was that there was a sum of \$7 million paid into Sinking Funds in April 2011 by the former management, recorded as a transfer for "FY 2011/12". As transfers to Sinking Funds are required within a month after each quarter, it would be assumed that the transfer in April 2011 would have been for the January to March 2011, being the last quarter of FY 10. However, the sum of \$7 million would have been unusually large as a quarterly transfer, since the quantum of quarterly transfers was closer to \$4 million. Why such a large sum was transferred in April 2011, and recorded as done for FY 2011/12 deserves investigation. Further, as the TC has now transferred sums into the Sinking Fund for FY 11 without taking into account the \$7 million transferred in April 2011, there may have been an over-transfer for FY 2011 that would warrant a transfer back to

Operating Fund.

11.5 *Improvements to Management of Sinking Funds:*

- 1) Sinking Fund expenses are now strictly paid out of Sinking Fund bank accounts only, to avoid "complications".
- 2) NRP funds will only flow into and from Operating Fund accounts.
- 3) Quarterly transfers to Sinking Fund have been made good for FY 11 and FY12. The sums were \$7.44 million for FY 11 (net of Sinking Fund expenses) and \$6.92 million for FY 12 (net of Sinking Fund expenses).
- 4) A further \$1.16m is due to be transferred owing to shortfalls for some specific transactions (paras 11.10, 11.13). This sum will be transferred by early Nov 2014.
- 5) Quarterly transfers (done without deducting for Sinking Fund expenses) for FY 13 totalled \$21.54 million.
- 6) The TC will do its best to verify what further sums out of GST refunds from the Inland Revenue Authority of Singapore (IRAS) (para 11.5, table 7) have to be transferred to the Sinking Funds. This will take some months to unravel.
- 7) Going forward, the TC will work with its IT system vendor to implement a function that will capture Sinking Fund items that attract GST, to ease the calculation of GST refunds from IRAS to be paid back to Sinking Fund.

AGO's further comments

1. AGO would like to point out that AGO did not conclude that "at all times, the monies were still in the TC [AHPETC]'s bank accounts...".
2. What AGO had found was that AHPETC 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. Please refer to paragraph 11 of the Report (Part I - AGO) for details of AGO's observation.
3. AHPETC commented that AGO had not highlighted a significant fact on a sum of \$7 million paid into bank accounts of sinking funds in April 2011 by the former management. The Town Councils Financial Rules require C&S charges, grants-in-aid and interests that are payable to sinking funds to be transferred to sinking fund bank accounts within one month from the end of each quarter of each financial year. AGO found that the transfer in April 2011 was not for C&S fees, grants and interest meant for allocation to sinking funds for FY 2011/12. Therefore, it has nothing to do with AGO's observation on sinking fund transfers for FY 2011/12.

12. Related Party Transactions

- 12.1 The TC notes AGO's findings on the requirements of Financial Reporting Standard (FRS) 24, which has undergone revisions in recent years.
- 12.2 The TC had no intention to hide any material information, as it had specifically made a disclosure under the heading Related Party Transaction that had not been made by other TCs. The project management fees had been disclosed as a percentage of the value of projects undertaken. As noted by the AGO, the amount of project management fees was only \$220,000 for FY12, which the TC believes is not significant in the context of the TC's undertaking.
- 12.3 The TC would like to see a consistent standard applied to all TCs on this matter. It is the norm / common practice to have management personnel of Managing Agents hold key positions in the TCs they manage. To assist TCs, the relevant authorities (e.g. AGO, Ministry of National Development etc.) could articulate when Managing Agents and TCs are considered related parties and the extent / details of disclosures required in the TC context.

AGO's further comments

1. AGO would like to point out that requirements for related party disclosures and considerations for determination of related party relationships were already stipulated in the Singapore Financial Reporting Standards (SFRSs) at the time of FKT's audit for FY 2012/13. AHPETC had not complied with these requirements.
2. AHPETC's Secretary, General Manager and Deputy General Manager were shareholders and directors of AHPETC's managing agent, FMSS. In addition, the Secretary was the owner of FM Solutions & Integrated Services (FMSI), a sole proprietorship which provided services to AHPETC. Thus, AHPETC is required to make the necessary related party disclosures pertaining to transactions with FMSS and FMSI.

13. Subsequent Events Review

- 13.1 Advice noted.