

AUDIT OBSERVATIONS ON FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEMS

CONSERVANCY AND SERVICE ARREARS

1 Lapses in Management of C&S Arrears

Observation

1.1 The Auditor-General's Office (AGO)'s review of the Aljunied-Hougang-Punggol East Town Council (AHPETC)'s conservancy and service (C&S) arrears (termed "receivables" in the financial statements) for the Financial Year (FY) 2012/13 revealed that AHPETC did not have a system to generate C&S arrears information accurately. As a result, the statistics furnished by AHPETC were unreliable.

1.2 AGO noted that C&S arrears for precincts handed over by Hougang Town Council (HTC) as at 27 May 2011 and Aljunied Town Council (ATC) and Marine Parade Town Council (MPTC) as at 1 August 2011 amounted to about \$1.94 million¹. The amount of arrears as at 31 March 2013 based on AHPETC's FY 2012/13 financial statements was \$3.18 million². Thus, there was an increase of \$1.24 million (or 64 per cent) between the handover and 31 March 2013.

1.3 AHPETC has a Finance and Investment (F&I) Committee whose terms of reference include the monitoring of arrears level of the Town Council. Pertaining to the frequency of F&I Committee meetings, AGO was informed that *"There is no written SOP on the frequency of the F&I meetings, but it was agreed that as the Town Council meetings were held quarterly (Feb, May, Aug and Nov), the F&I Committee would meet monthly except for the months were [where] there were TC meetings i.e. F&I would meet 8 times a year. There was some adjustment on occasions but in the main, this was the framework."* However, AGO observed that as of 12 December 2014, the last F&I Committee meeting was held in April 2014³.

1.4 AHPETC submits arrears reports to its F&I Committee. According to AHPETC, the F&I Committee had no specified requirements on the frequency of arrears reports. In addition, AHPETC is required to submit monthly arrears reports to the Ministry of National Development (MND). AGO requested AHPETC for arrears reports submitted to MND as well as AHPETC's F&I Committee, up till September 2014. AGO observed that the last arrears report submitted to MND was for April 2013 and the last arrears report submitted to AHPETC's F&I Committee was for February 2014⁴.

¹ The amount of \$1.94 million was compiled from audited financial statements of precincts handed over.

² The figure of \$3.18 million was based on AHPETC's FY 2012/13 financial statements for which the auditor issued a disclaimer of opinion.

³ The F&I Committee was established in June 2012. It was noted that F&I Committee meetings were held in July 2012, September 2012, October 2012, January 2013, February 2013, April 2013, July 2013, September 2013, October 2013, February 2014 and April 2014.

⁴ AGO was provided with the arrears reports submitted to AHPETC's F&I Committee for arrears as at 31 December 2012, 31 March 2013, 31 August 2013, 30 November 2013 and 28 February 2014.

1.5 With regard to the reason for not submitting arrears report to MND subsequent to April 2013, AHPETC informed AGO that its *“IT system ... is not able to churn out the required arrears data by household automatically. Manual sorting and counting is required to aggregate the data by number of households and avoid double-counting. System enhancements were in the pipeline to facilitate reporting in MND’s required format, but these were delayed.”* AHPETC added that the *“system tracked the dollar value of arrears, but the unit data required time to segregate. MND required the arrears reports in its prescribed format, including by households.”* According to AHPETC, it *“prioritised resources for the TC’s annual audit by FKT [Foo Kon Tan Grant Thornton LLP] from mid-2013 till Jan 2014 and then the AGO audit from March 2014, and deferred this reporting request”*.

1.6 AGO also observed discrepancies between AHPETC’s arrears reports submitted to MND and to AHPETC’s F&I Committee. The arrears reports submitted to MND for the month of March 2013 showed 4,379 units (or 7.6 per cent of 57,590 total units) with arrears of three months or more totalling \$2.43 million. However, the report submitted to AHPETC’s F&I Committee for arrears as at 31 March 2013 showed 17,502 units with arrears of more than 90 days totalling \$2.54 million. For the month of April 2013, the arrears reports submitted to MND showed 17,077 units (or 29.6 per cent of 57,677 total units) with arrears of three months or more totalling \$2.35 million. No report for arrears as at 30 April 2013 was submitted to the F&I Committee.

1.7 Arrears reports for months subsequent to March 2013 submitted to the F&I Committee did not contain statistics on the number of units with arrears; only amounts of arrears were stated. According to AHPETC, the *“reporting to the F&I Comm was similarly affected [as mentioned in paragraph 1.5], with no unit data in the reports after March 2013.”* AHPETC also informed AGO that the F&I Committee did not specify any format for the arrears reports.

1.8 In addition, AGO noted discrepancies in the numbers between AHPETC’s reports to MND for March and April 2013. Since the reports were supposed to capture the number of units with arrears in consecutive months, there should be traceability and comparability of the number of units with arrears from one month to the next. AGO observed that this was not the case. The April 2013 report showed a high number of 17,077 units with arrears of three months or more. However, the March 2013 report did not show a similar large number of units with arrears either in the “less than three months” category or “three months or more” category which could be traced to the April 2013 report. This strongly indicates that the numbers in either one or both the reports were incorrect.

1.9 In summary, AGO noted that AHPETC’s C&S arrears has increased from \$1.94 million at the point of taking over from the previous Town Councils in 2011 to \$3.18 million² as at 31 March 2013. According to AHPETC, the arrears as at 30 September 2014 which included the precinct of Punggol East taken over in May 2013, was \$3.37 million.

1.10 AGO’s observations in paragraphs 1.6 and 1.8 strongly indicate that AHPETC’s statistics for arrears submitted to MND and AHPETC’s F&I Committee were unreliable. AHPETC did not have a system to generate accurate C&S arrears information. There is also no assurance that AHPETC is able to properly monitor and manage its C&S arrears.

AHPETC's Comments

1.11 The financial system in use at AHPETC is customized around the Oracle's JD Edwards World system, a comprehensive ERP system that is used by many customers around the world and known for its robust capability and renowned stability.

1.12 AHPETC does have a system to track every financial transaction in a resident's account 'live' and such information can be displayed at the terminal at the collection counter. A resident at the counter would be able to find out his/her up-to-date arrears status accurately and on demand.

1.13 What AHPETC does not have is a system to generate and format aggregated C&S arrears information in the format requested by MND. To meet the demands of such routine reporting, AHPETC has to enhance the system and this is a work in progress.

1.14 In the absence of such reporting capability, reports were prepared by staff based on data generated by the town council's IT system and extracted through manual sorting and counting. For March 2013, in preparing the arrears report to MND, additional adjustments were made manually to the data contained in the earlier report submitted to the town council's F&I Committee.

1.15 AHPETC acknowledges that this manual process is not the most ideal and efficient way of doing arrears reporting as the data size is voluminous; a single account will comprise many documents dating back to many years of record keeping. As such, the aggregated arrears information reporting process is tedious and subject to reporting and human error.

1.16 To further compound the complexity of the reporting process, the MND arrears reporting format dictates that aggregated arrears are to be segregated by months according '1 - 1.99 mth', '2 - 2.99 mth', '3 - 3.99 mth', '4 - 4.99 mth', '5 - 5.99 mth', and etc whereas the arrears reports given to AHPETC's F&I Committee were sorted by days according to '0 - 30 days', '31 - 59 days', '60 - 90 days', and so forth. The reports submitted to MND and AHPETC's F&I Committee will exhibit some inherent discrepancies to begin with.

1.17 This is evident in the observations made by AGO in para 1.6. It is also evident in that the report for March 2013 for MND was only submitted in May 2013. Likewise, the report for April 2013 could only be submitted in late June 2013. Additionally, on 18 June 2013, the TC had informed HDB that it was sorting out a bug in the IT programme generating arrears data and was still working on submitting its April 2013 data to HDB / MND.

1.18 In view of the extensive manual work / processing required to prepare the arrears data into MND's prescribed format, the work was suspended after April 2013 to prioritise staff resources and management time on meeting the requirements of the annual TC audit which continued till January 2014. After April 2014, F&I Committee meetings (including the preparation of management's arrears reports to the Committee) were suspended, in order to free up the management and Finance staff from other financial reporting to prioritise the AGO audit. As such, the F&I Committee did not meet between May 2014 to November 2014.

1.19 Nonetheless, it is important to note that at any point in time, the accuracy, integrity, monitoring and management of each individual C&S account is not compromised in any way by the manual statistics reporting processes described above.

1.20 AHPETC has undertaken to expedite the development of the arrears reporting module to comply with the reporting requirement. It has completed and tested a module to aggregate C&S arrears for 1 to less than 3 months and for 3 months and above aging. The integrity, accuracy, and aging treatment of the C&S arrears data as of 30 September 2014 were also subject to a review by external consultants, as an added measure of reliability.

AGO's Further Comments

1.21 AHPETC had commented that the reports submitted to MND and AHPETC's F&I Committee will have some inherent discrepancies due to the difference in time periods used and that this is evident in AGO's observations in paragraph 1.6.

1.22 AGO is of the view that the discrepancies cannot be explained by the difference in time periods used. The discrepancies reported in paragraph 1.6 were significant; the number of units in the report to MND for arrears of three months or more was 4,379 as compared to 17,502 indicated in the report to AHPETC's F&I Committee for arrears of 90 days or more, pertaining to the month of March 2013.

PROCUREMENT

2 Procurement Not Subject to Open Competition

Observation

2.1 AGO found that AHPETC had to waive the calling of open tender, due to its failure to adequately plan and to take timely action for procurement of essential maintenance and lift rescue (EMSU) services for the period from October 2011 to June 2012. As a result, there was no open competition for the procurement and no assurance of AHPETC obtaining best value for money.

2.2 AHPETC had awarded the contract for EMSU services for a nine-month period on 20 September 2011 to its managing agent, FM Solutions and Services Pte Ltd (FMSS) through a waiver of tender. This was 10 days before the contracts for EMSU services with the incumbent contractors, CPG Facilities Management Pte Ltd (CPGFM)⁵ and EM Services Pte Ltd (EM Services)⁶, were to expire (i.e. 30 September 2011).

2.3 In an email dated 18 September 2011 to seek approval from the Town Council, the committee⁷ appointed to consider FMSS' proposal for the EMSU services stated that the then contractors for EMSU services (i.e. CPGFM and EM Services) *"confirmed just this last week that they are not willing to extend their services beyond 30 Sep. In CPG's [CPGFM's] case, this came as a surprise on 14 Sep and was contrary to the verbal agreement that they were willing to extend for 6 months till March 2012."* It was recommended that *"an interim contract only be awarded, and a tender be called after this interim period."*

2.4 AGO observed from email correspondence provided by AHPETC that CPGFM had alerted AHPETC on 16 May 2011 that CPGFM's contract for EMSU services would expire on 30 September 2011. CPGFM had also on 9 June 2011 reminded AHPETC at a Town Council meeting that the CPGFM's contract and another contract with EM Services for EMSU services would expire on 30 September 2011. Thus, AHPETC had at least three months to plan for the procurement of EMSU services.

2.5 With regard to the verbal agreement mentioned in the committee's email dated 18 September 2011 (refer to paragraph 2.3), AHPETC was not able to provide AGO with any record of the verbal agreement between CPGFM and AHPETC to extend the contract. Even if there was a verbal agreement, AGO is of the view that it would not be prudent to rely on a verbal agreement for such an important contract, with no written record of the critical terms and the concurrence of CPGFM to provide the services.

2.6 While AGO noted that AHPETC did write to CPGFM and EM Services on 26 August 2011 to request that they extend their services for another six months, making the requests so close to the expiry of the contracts would restrict AHPETC's ability to call an open tender,

⁵ CPGFM's EMSU contract was for precincts taken over from the former Aljunied Town Council.

⁶ EM Services' EMSU contract was for a precinct taken over from Marine Parade Town Council.

⁷ The committee was appointed by the Town Council under rule 76(4) of the Town Councils Financial Rules and comprised four town councillors.

should the existing contractors decide not to extend the contract. In this case, EM Services and CPGFM replied on 7 September 2011 and 14 September 2011 respectively to decline the requests, which was less than a month before the existing contracts expired.

2.7 AHPETC did not plan adequately and take prompt action to ensure that an open tender could be called for EMSU services. By not calling open tender, there is no assurance that AHPETC was able to obtain the best value for money. As stated in rule 74(18) of the Town Councils Financial Rules, waiver of tenders shall only be used under very special circumstances and must be fully justified. While it could be said that the need to ensure continuity of EMSU services coupled with the lack of time to call tender would qualify as “special circumstances”, AGO is of the view that the circumstances arose due to AHPETC’s failure to adequately plan and take timely action even though it knew of the expiry of the contracts more than three months in advance.

AHPETC’s Comments

2.8 The TC was aware sometime in May 2011 that the EMSU contracts would be expiring on 30 Sep 2011 for both CPGFM (covering 4 wards in Aljunied GRC) and EM Services (covering the remaining ward, Kaki Bukit, which had previously been part of Marine Parade GRC). The TC’s preference was to extend the existing contracts with CPGFM and EM Services for an interim period of six months from October 2011 to March 2012, to facilitate calling of a tender for EMSU services for Aljunied-Hougang Town (see TC Chair’s email of 16 Sep 2011).

2.9 To this end, there were discussions during the handover period (June to July / August 2011) between CPGFM and FMSS on extending CPGFM’s EMSU contract. Our recollections were that CPGFM indicated they were amenable to an extension of six months. However, no written confirmation was received. As time wore on, it became critical to get an official response. The TC GM then wrote to both CPGFM and EM Services on 26 August 2011. Two weeks later, when the TC met for its scheduled meeting on 8 Sep 2011, the TC was aware that EM Services would not agree (it sent a letter dated 7 Sep 2011, received by the TC on 9 Sep 2011) while CPGFM had still not yet replied. The TC noted the apparent reluctance / unwillingness of EMSU service providers at the time to provide such services to the TC. In view of short time frame before 30 Sep 2011, the TC appointed a committee under TCFR 76(4) to consider a proposal by the incumbent MA to provide the EMSU services for an interim period, pending calling of a tender. The minutes of TC meeting of 8 Sep 2011 recorded the same. A week after the TC meeting, and 3 weeks after receiving the TC GM’s letter of 26 August 2011, CPGFM replied on 14 Sep 2011 that it would not be appropriate for them to extend their services. The committee appointed by the TC then sat urgently on 18 Sep 2011 (Sunday) to consider the proposal by FMSS to provide EMSU services for an interim period.

2.10 The TC had no intention to exclude competition. These events occurred in the context of a post-election (May 2011) handover where operational stability was a priority. The TC would have preferred to extend the existing contractors for EMSU services till a tender could be called. However, as events unfolded, this was not feasible. It was an exceptional situation.

2.11 As corroborative evidence that a six-month extension of EMSU services from Oct 2011 to March 2012 was within CPGFM's planning at the time, it should be noted that the EMSU contracts for various other TCs were apparently extended by six months from Oct 2011 to Mar 2012, and new contracts from Apr 2012 to Mar 2017 were awarded after a tender. This is especially likely as, according to the Coordinating Chairman of the PAP TCs Dr Teo Ho Pin's Statement to Parliament on 13 May 2013, the PAP TCs call joint tenders for EMSU services to enjoy economies of scale, with the EMSU tender for the 15 PAP-run TCs grouped into 3 zones (East, West and Central).

AGO's Further Comments

2.12 The documentary evidence (that was provided after AGO's audit findings were forwarded to AHPETC for comments) do not show that CPGFM had agreed to extend the EMSU contract with AHPETC. Hence, AHPETC's comment in paragraph 2.11 above is not relevant to the observation raised by AGO that AHPETC did not plan adequately and take timely action for procurement of EMSU services.

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3 Approving a Vendor's Proposed Fees without Due Diligence Resulting in Fees Higher than Intended

Observation

3.1 AGO observed that there was a lack of due diligence in assessing the proposal submitted for EMSU services for the period 1 October 2011 to 30 June 2012 under a tender awarded under waiver of competition. In an email dated 18 September 2011 to seek approval to waive the tender and award the contract for EMSU services for the period 1 October 2011 to 30 June 2012, the committee⁷ appointed to consider FMSS' proposal for the EMSU services (comprising four town councillors) informed the other town councillors that the fee payable under the contract would be about the same as the combined fees charged by the incumbent contractors, CPGFM and EM Services (see paragraph 3.2). On the contrary, AGO found that the proposed monthly fee of \$70,110 under the new contract was 43.1% higher than the combined fees charged by the incumbent contractors (of about \$49,000).

3.2 In the 18 September 2011 email, the committee stated that "*fee payable should be about the same as the existing combined fees charged by CPG [CPGFM] and EM Services, adjusted for electoral boundary changes. The fee currently is \$70,110.08, excluding replacement parts.*"

3.3 However, AGO's checks on invoices from the incumbent contractors, CPGFM and EM Services, showed that the combined fees for August and September 2011 (after taking into account electoral boundary changes and excluding replacement parts) were about \$49,000 per month:

Table 1: Monthly Fees of Incumbent Contractors

Month	CPGFM (\$)	EM Services (\$)	Combined Fees (\$)
August 2011	39,110.64	9,982.94	49,093.58
September 2011	39,110.64	9,956.44	49,067.08

3.4 AGO's checks revealed that the difference in fees of more than \$20,000 arose as a result of FMSS using a fee structure and contractual rates that were different from the contracts of CPGFM and EM Services. The components of property units under management used by FMSS to charge for certain services were also different from those of CPGFM and EM Services. Details are elaborated below.

- (a) The charging basis for Lift Telemonitoring Services (TMS)⁸ and Installation of Radio Frequency Identification (RFID) tags⁹ in the contract with FMSS was different from that of CPGFM as shown below:

⁸ Lift Telemonitoring Services involved the use of the lift telemonitoring system to monitor the operation of lifts in the precincts, such as looking out for lift fault, massive power failure and forced entry into the motor room.

⁹ RFID tags are installed at all blocks. The staff of the contractor could scan the RFID tag installed at all blocks to timestamp their presence at any HDB block during the course of their work.

Table 2: Differences in Charging Basis

Types of Services	CPGFM's contract rates	FMSS' contract rates
TMS	\$0.10 <u>per lift</u>	\$0.10 <u>per unit</u> (i.e. property units under management)
RFID tags	\$0.20 <u>per block</u>	\$0.20 <u>per unit</u>

As a result, FMSS' proposed fees for the above services were about \$13,000 higher than the incumbent contractors' fees for August and September 2011.

- (b) The components of property units under management used by FMSS to charge for telephone answering/channelling and feedback services and tradesmen services were different from those of CPGFM and EM Services contracts. FMSS had included parking lots in its computation of property units under management which CPGFM and EM Services had excluded. In addition, for tradesmen services, FMSS' proposed unit rate of \$0.30 for precincts taken over from ATC was different from CPGFM's rate of \$0.295 per unit. As a result, FMSS' proposed monthly fees for the above services were about \$3,500 (or 14.6 per cent) higher than the incumbent contractors' fees for the months of August and September 2011.
- (c) FMSS' proposal used an estimated number of 1,464 lifts to derive the fees for lift rescue services which was higher than the total number of lifts reflected in the invoices of CPGFM and EM Services of 1,223 and 1,222 for August and September 2011 respectively. This accounted for a difference of about \$4,300 for lift rescue services.

3.5 AHPETC did not ensure that information used by the Town Council in approving the contract and the fees was correct. Consequently, there was no assurance that AHPETC had obtained value for money for the services. In this regard, AGO observed that the fees billed by FMSS for EMSU services for the period October 2011 to June 2012 averaged \$67,000 per month, which was \$18,000 (or 36.7 per cent) higher than that of CPGFM and EM Services for August and September 2011.

AHPETC's Comments

3.6 As mentioned above, due to the inability to obtain an extension of the existing EMSU contracts with CPGFM and EM Services, FMSS proposed to provide EMSU services for an interim period until a tender for EMSU services could be called for Aljunied-Hougang Town.

3.7 Due to the urgency of the matter, the committee met on Sunday 18 Sep 2011 to evaluate the proposal by FMSS. The proposal included a pricing structure. There was an understanding that FMSS would adopt pricing similar to CPGFM and EM Services, to protect TC's interest in the interim period. The proposal presented reflected the existing rates charged by CPGFM and EM Services. However, there were some aspects where there were in fact differences, as pointed out by the AGO report. These differences arose when the wrong unit

multiplier was used to compute the prices for lift monitoring services (per unit instead of per lift) and RFID tags (per unit instead of per block). There was also a rounding of the unit rate for tradesmen services (\$0.30, which should have been \$0.295). The TC agrees that these are errors, inadvertently made, that need to be rectified.

3.8 The TC has since done a check on the amounts actually billed by FMSS for EMSU services for Oct 2011 to June 2012. The monthly billings were between \$67,325 to \$68,040, lower than the \$70,110 indicated in the proposal. After correcting the unit multipliers for lift monitoring services and RFID tags, and precisely computing tradesmen services at \$0.295 instead of \$0.30 per unit, the amount to be credited back to the TC is \$122,411.98; this amount has been paid back to the TC via a credit note.

3.9 The TC regrets this computation error. The TC notes that the Committee should have verified the comparability of the indicative price computation to the previous contractors' before seeking the Council's approval of the pricing.

3.10 It was also noted by AGO that under the CPGFM and EMSU contracts, car park lots were not used to compute pricing, whereas, under FMSS' proposal, car park lots were included. The TC notes that car parks are specifically included in the scope of works for EMSU services. The amount paid attributable to car park lots is approximately \$2,500 per month. As this issue was not discussed with the contractor prior or during the performance of the services, this amount was not adjusted.

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4 Approval Obtained and Written Agreements Issued Only After Commencement of Services

Observation

4.1 AGO's test checks revealed that approvals for award of tender for two contracts awarded to FMSS for EMSU services and managing agent (MA) services were obtained and the written agreements issued only after services had commenced.

4.2 AGO observed that AHPETC had awarded the following contracts to FMSS in the Financial Year 2012/13:

- (a) Term Contract for EMSU services for the period 1 July 2012 to 30 June 2015; and
- (b) Term Contract for MA services for the period 15 July 2012 to 14 July 2015.

4.3 The approvals for award of both contracts were obtained on 2 August 2012, after services for EMSU and MA had commenced on 1 July 2012 and 15 July 2012 respectively. The written agreements (i.e. letters of award) were subsequently issued on 3 August 2012, more than two weeks after commencement of services.

4.4 AHPETC did not comply with rule 81(6) of the Town Councils Financial Rules (TCFR) which states that "*For works, period quotations and contract, there shall be a written agreement before the works or supply of services begin.*"

4.5 AHPETC did not ensure that its approving authority had given the necessary approval for award of contracts prior to commencement of services. In addition, AHPETC did not comply with the TCFR as it issued written agreements after services had commenced. Consequently, the role of approving authorities was undermined and AHPETC's interest would also not have been safeguarded as there was no formal written agreement (with terms of agreement) before services were rendered to hold the contractor accountable for its performance.

AHPETC's Comments

4.6 These contracts involved Managing Agent and EMSU services, which were being provided by the same contractor before the 2012 tender. The contractor was the sole bidder in the tender, and continued to provide the services after the preceding term expired on 14 July 2012 and 30 June 2012 respectively, while awaiting the formal approval of the new contracts by the Town Council at its quarterly meeting on 2 August 2012.

4.7 The TC took a longer time than usual to evaluate the MA tender by, inter alia, interviewing the tenderer twice and commissioning a special voluntary audit of the tender process. The TC Chairman had also been of the view that the TC would not be prejudiced, as no payments were due to the contractor until the contracts and rates had been approved by the Council at its quarterly meeting on 2 Aug 2012. Nevertheless, the TC accepts that

retrospective approvals are not ideal.

4.8 For subsequent MA and EMSU tenders, a longer lead-time has been planned for. Specifically, the tender for the MA contract commencing mid-July 2015 was called in November 2014 and closed on 1 December 2014, to give ample time for approvals before the contract commencement date of mid-July 2015. The tender for EMSU services is expected to be called by February 2015, with commencement of the new contracts due 1 July 2015.

INTERNAL CONTROLS

5 Weak Controls Over Cheques Received

Observation

5.1 During the audit of AHPETC's accounts and financial systems, AGO observed that AHPETC did not have any written procedures to guide officers in handling of mail and cheques. AGO's checks on AHPETC's controls over receipt of cheques, including physical observation of the collection process at its main office, revealed gaps or weaknesses as elaborated below.

Cheques not Properly Safeguarded before Bank-in

5.2 AGO observed that cheques received (through mail or over the counter) and not banked-in by the end of the day were not safeguarded under lock and key. Instead, the cheques would be placed in an open box behind the cash collection counters. Consequently, there is a risk that the cheques could be lost or misappropriated before they could be banked in on the next day.

Valuable Mail not Properly Handled

5.3 AGO observed that all mail, including mail with cheques (valuable mail), were opened in an area which was accessible to the public. In addition, the mail opening officer did not maintain a record of all cheques received through mail.

5.4 AGO observed that the mail opening officer had opened and checked the contents of the mail at the reception (an open area accessible to the public). Opening of mail should be done in a more secured area to minimise the risk of the mail, especially those with cheques, being taken away by unauthorised personnel.

5.5 AGO also observed that there was a control weakness in handing and taking over of cheques between the mail opening officer and an officer in the Administration Department as the record of the cheques was only prepared subsequently by the Admin officer who took over the cheques. The Admin officer was responsible for recording the details of the cheques (i.e. cheque number, payee bank and amount) in the remittance record and would sign off in the remittance record to acknowledge receipt of the cheques. Consequently, there is a lack of accountability in handing and taking over of cheques and there is no assurance that all cheques received through the mail had been properly accounted for.

5.6 AHPETC did not have adequate procedures for handling of cheques received through mail. As a result, there is a risk of losing cheques through theft, misappropriation or otherwise.

AHPETC's Comments

5.7 The TC has noted the observation and improved upon its safeguarding of cheques received by mail. Cheques not banked in by the end of the day are now placed in the safe. It should be highlighted that, as an additional control, all cheques received are scanned by Finance staff into a central server.

5.8 As regards the observation that cheques received by mail should not be handled in an open area, the TC feels it needs to balance the need for staff to be productively deployed while managing any risks of cheques being lost. Currently, the reception area is already monitored by CCTV, which would be able to detect unauthorized personnel accessing mail received. To require reception staff to move to a private area to process mail would be unproductive currently. However, to reduce the risk of cheques being lost, the TC will henceforth require the Admin staff responsible for recording receipt of cheques to be present at the reception counter when cheques by mail are received, so as to do the recording on the spot, obviating the need for any handover from the receptionist to the Admin staff.

5.9 The TC will continue to review the workflow to see if any further enhancement should be made.

6 Surprise Examinations Not Carried Out In Accordance With Town Councils Financial Rules

Observation

6.1 AGO found that there was no evidence that surprise examinations were conducted in FY 2012/13 for every safe, cash-box, drawer or other receptacle for money in the charge of appointed officers, as well as stocks of unused receipt books.

6.2 Rule 114(1) of the Town Councils Financial Rules (TCFR) states that *“The secretary or his representative shall carry out surprise examinations of every safe, cash-box, drawer or other receptacle for money in the charge of officers entrusted with the custody of money, stamp, or other valuables of any kind, as well as stocks of unused receipt books.”* Rule 114(2) further states that *“Such surprise examinations should be held at uncertain intervals of time, and the date, nature and result thereof shall be recorded in a book which shall be initialled by the secretary or his representative on the occasion of each examination.”*

6.3 The AHPETC Secretary had appointed an officer to carry out physical internal checks as required under rule 114 of TCFR, with effect from 6 January 2012. According to the appointed officer, he had carried out only one surprise examination since his appointment two and a half years earlier. Based on the record provided to AGO, the examination was conducted on 6 January 2012 at one branch office. There was no record of any other surprise examination carried out by AHPETC.

6.4 AHPETC had not complied with the TCFR as it had conducted only one surprise examination of valuables at one branch office. In addition, from controls perspective, not conducting any surprise examination in FY2012/13 was inadequate. Consequently, any discrepancies in the moneys held in custody would not have been detected and investigated timely.

AHPETC’s Comments

6.5 The TC has noted the observation and will implement the surprise checks by the TC Secretary or his representative at every branch office at least once a financial year.

6.6 The TC had been implementing other surprise checks on cash. A senior Finance staff had gone to each branch office in FY 13 and FY 14 to conduct a surprise check on cash collections and balances.

6.7 Nevertheless, TC appreciates that surprise checks by persons specifically authorized by the Secretary are required.

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7 Weak Controls Over Access to Strong Room and Safe

Observation

7.1 AGO observed that AHPETC did not implement adequate controls over access to the strong room and safe. In addition, there was no authorisation by the Chairman of AHPETC for officers to hold the keys to the strong room and safe although such authorisations are required under the Town Councils Financial Rules (TCFR).

7.2 Rule 24 of TCFR requires the strong room to be installed with at least two locks with the key to one lock held by the secretary or an officer appointed by him and the key to the other lock held by an officer appointed by the chairman. Rule 23(3) also requires the key to the lock on the money delivery box, cash deposit bag or other container and the key to the strong room or safe to be kept by separate officers authorised by the chairman.

Weak Controls over Access to Strong Room and Safe

7.3 AGO found that the controls over access to the strong room and safe were ineffective. While the strong room in the main office¹⁰ of AHPETC was fitted with two locks, i.e. a padlock and password-controlled electronic lock, AGO found that one officer had custody of the key to the padlock and also the password to the electronic lock. In addition, AGO observed that the officer also had custody of the key to the safe placed inside the strong room. Thus, this officer had access to valuable items such as cash float of \$1,300 kept in the safe and unused receipt books kept in the strong room and could remove such valuable items without authority or knowledge of another officer.

7.4 As reported in paragraph 6, AGO also observed that AHPETC did not conduct any surprise examination in FY2012/13 on safe, cash-box, drawers or other receptacle for money as well as stock of unused receipt books. Thus, any loss of valuables would not be detected timely.

No Authorisation by Chairman for Custody of Keys

7.5 AGO was not able to sight written authorisation(s) by the Chairman of AHPETC for any officer to hold one of the keys to the strong room and/or the key to the safe. Upon query, the Chairman verbally informed AGO that she had not issued the authorisation required under the TCFR for access to the strong room and safe.

7.6 AHPETC's controls over access to the strong room and safe were weak. Coupled with the lack of surprise examinations, there is a risk of losing the valuable items and not detecting the loss.

¹⁰ AGO had only reviewed access to the strong room at the main office.

AHPETC's Comments

7.7 There were written authorisations by the Secretary to various officers to hold the keys to the strong room in the TC HQ and Finance rooms and safes at TC HQ as well as the branches. However, the need to have certain authorisations by the Chairman and the need for certain keys to be kept by separate officers is noted.

7.8 The TC has since enhanced its controls and obtained Chairman's and Secretary's authorisations for access to the strong rooms and safes.