



# Ajunied- Hougang Town Council

## Monthly Report on Progress

KPMG LLP

13 May 2016

This report contains 30 pages



**Aljunied-Hougang Town Council**  
**Monthly Report on Progress**

13 May 2016

## Glossary of terms

The terms tabulated below are used in this report with the specific meanings indicated.

Term	Definition
Accounting System	Accounting platform used by AHTC to record and account for its transactions
AGO	Auditor-General's Office of Singapore
AGO's Report	AGO's audit report of AHPETC dated 6 February 2015
AHPETC	Aljunied-Hougang-Punggol East Town Council
AHTC	Aljunied-Hougang Town Council and, generically, AHPETC and/or AHTC over their combined operations over time
Audit Points	Areas in which AHTC did not comply with s35(c) of the TCA and/or the TCFR as identified in the Audit Reports
Audit Reports	Audit Alliance LLP independent audit report dated 29 June 2015 on AHPETC's financial statements for FYE 2014 Audit Alliance LLP independent audit report dated 24 August 2015 on AHPETC's financial statements for FYE 2015 The AGO's Report
Court Order	Order of the Court in <i>Attorney-General v AHPETC</i> , Civil Appeal No. 114 of 2015 in respect of the appointment of accountants by AHTC
Extracted Data	Accounts payable, accounts receivable and general ledgers for the period January 2011 to December 2015 generated and provided by AHTC.
FMSI	FM Solutions and Integrated Services (a sole proprietorship)
FMSS	FM Solutions & Services Pte. Ltd.
FYE	Financial year ended 31 March
GST	Goods & Services Tax
HDB	Housing Development Board
IRAS	Inland Revenue Authority of Singapore
KPMG	KPMG LLP
MND	Ministry of National Development
Monthly Report	KPMG's monthly written progress report on the fifteenth day of each month, or the business day immediately preceding it where the fifteenth day is not a business day, commencing on 15 April 2016
Operating Fund	A Town Council fund for short-term routine expenditure, e.g. estate cleaning, repairs and maintenance
Past Payments Report	KPMG's report on past payments made by AHTC to be issued by 31 August 2016, or by such other date as may be agreed with AHTC (with the consent of HDB), or as ordered by the Court
Related Parties	FMSI and FMSS
Remediation Plans	The steps that AHTC is taking to remedy the Unresolved Audit Points
S&CC	Service and Conservancy Charges
SGD	Singapore dollar
Sinking Fund	Fund established and maintained by Town Councils for improvements, management and maintenance relating to residential and commercial properties in their towns
TCA	Town Councils Act (Cap. 329A)
TCFR	Town Councils Financial Rules
Unresolved Audit Points	Audit Points that are unresolved as at the date of the Monthly Report i) because the Remediation Plans have not yet been fully implemented; ii) because the Remediation Plans have been implemented but not yet fully tested by KPMG; or iii) because of identified shortcomings in that they have not yet been remedied
Work Order System	The IT system used to record work orders



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

## Contents

Glossary of terms	i
1 Our engagement	1
1.1 This report	1
2 Summary of status as at May 2016 Monthly Report	3
2.1 Review of the Audit Points and their root causes	3
2.2 Summary of progress of Remediation Plans as at 13 May 2016	3
2.3 Status of the Audit Points	4
3 Status as at May 2016 Monthly Report: root causes	9
3.1 AHTC's governance framework and policy management	9
3.2 AHTC's accounting practices	10
3.3 AHTC Finance Department's capability and management personnel retention	11
3.4 AHTC's Accounting System	11
4 Status as at May 2016 Monthly Report: management of Sinking Fund	13
4.1 Incorrect computation of required transfers to the Sinking Fund, and/or shortfall or delay in transfer to Sinking Fund bank accounts	13
4.2 Incorrect use of Sinking Fund monies	14
5 Status as at May 2016 Monthly Report: governance of related party transactions	15
5.1 Incomplete disclosure of transactions with the Related Parties in the financial statements	15
5.2 Waiver of open tenders and competitive quotations for services provided by the Related Parties	16
5.3 Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties	16
5.4 Weaknesses in the approval of payments to the Related Parties	17
5.5 Approvals for services obtained and written agreements executed after the awarding and commencement of services provided by the Related Parties	18
6 Status as at May 2016 Monthly Report: management of S&CC arrears	19



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

6.1	Management of S&CC arrears	19
7	Status as at May 2016 Monthly Report: internal controls and procurement	20
7.1	Weaknesses in the performance of bank reconciliations	20
7.2	Weaknesses in controls over cheques received and valuable items and access to the strong room and safe	21
7.3	Surprise examinations not conducted in accordance with TCFR	21
7.4	Weaknesses in procurement and payment-related processes	21
8	Status as at May 2016 Monthly Report: records management and accounting	22
8.1	Weaknesses in the handover process and safeguarding of accounting records	22
8.2	Untimely recording of lift repairs and upgrading expenses, and absence of guidelines for verification of works and issuance of work orders	22
8.3	Absence of monitoring of and exercising diligence over collection from/payment to external parties and items in temporary clearing accounts	24
8.4	Reconciliation of direct and indirect tax	24
8.5	Opening balances	25



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

## 1 Our engagement

### 1.1 This report

- 1.1.1 This is the second progress report (“Monthly Report”) issued by KPMG LLP (“KPMG”) in accordance with the Order of the Court (the “Court Order”) in *Attorney-General v Aljunied-Hougang-Punggol East Town Council*<sup>1</sup>, Civil Appeal No. 114 of 2015. The background and scope of our work is described at section 1 of our April 2016 Monthly Report.
- 1.1.2 We are required to submit a Monthly Report on the fifteenth day of each month<sup>2</sup> commencing on 15 April 2016. This Monthly Report is supplementary to our April 2016 Monthly Report. It should be read in conjunction with that Monthly Report.
- 1.1.3 This report describes our review of the issues identified (the “Audit Points”) that remain outstanding (the “Unresolved Audit Points”) in the Auditor-General’s Office of Singapore’s (the “AGO”) report (the “AGO’s Report”) and the audit reports for AHTC for the financial years ended 31 March (“FYE”)s 2014 and 2015 (together with the AGO’s Report, the “Audit Reports”).
- 1.1.4 The review of information made available to us by Aljunied-Hougang Town Council (“AHTC”) and of the steps that AHTC is taking to remedy the Unresolved Audit Points (the “Remediation Plans”) is ongoing. Accordingly, the recommendations in our Monthly Reports remain preliminary in nature and will not be complete until the Audit Points are all resolved.

#### *Use of this Monthly Report*

- 1.1.5 Our procedures do not constitute an audit, a review or an assurance engagement made in accordance with Singapore Standards on Auditing, Singapore Standards on Review Engagements or Singapore Standards on Assurance Engagement. We are not qualified to provide legal advice. We are also not responsible or accountable for the management, conduct and operation of AHTC’s business and affairs. Our findings and comments are based on our understanding of the law, regulations and guidelines, and should not be construed as constituting legal advice by us.
- 1.1.6 Our engagement is directed at compiling information to report on certain matters, and cannot be relied upon to disclose all fraud, defalcations or other irregularities or any non-compliance with relevant laws and regulations other than s35(c) of the Town Councils Act (Cap. 329A) (the “TCA”). Our Monthly Reports are not to be used for any purpose outside the terms of reference as described at paragraph 1.1.1 of our April 2016 Monthly Report.

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<sup>1</sup> “AHPETC”.

<sup>2</sup> Or the business day immediately preceding it where the fifteenth day is not a business day.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- 1.1.7 Our Monthly Reports are strictly for the purpose of assisting and updating AHTC and the Housing Development Board (“HDB”) on the matters highlighted. Our Monthly Reports should not be regarded as suitable for use for any other purpose or by any other person. Should such a person choose to rely on these Monthly Reports they do so at their own risk. KPMG will accordingly accept no responsibility or liability in respect of it to persons other than AHTC or HDB.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

## **2 Summary of status as at May 2016 Monthly Report**

### **2.1 Review of the Audit Points and their root causes**

2.1.1 In addition to the unresolved Audit Points, in our April 2016 Monthly Report we observed that a number of the Audit Points had common root causes. We have made recommendations in relation to the Audit Points and the root causes. As described below, some of those recommendations have been implemented, some are in the process of being implemented and some have yet to be implemented as at the date of this Monthly Report.

### **2.2 Summary of progress of Remediation Plans as at 13 May 2016**

2.2.1 The progress on the implementation of AHTC's Remediation Plans as at 13 May 2016 includes the following:

- Recruitment of a second Deputy Finance Manager.
- The capability to generate automatically Service and Conservancy Charges ("S&CC") arrears data for use in reporting to the Ministry of National Development ("MND").
- As described in our April 2016 Monthly Report, an ongoing review of AHTC's policies and procedures, including areas where enhancement or development is required, is being led by AHTC's Head of Corporate Services. We have been provided with, and made recommendations in respect of, drafts or revised versions of the following:
  - *Period End Closing Checklist*<sup>3</sup> listing the activities for month-end, quarter-end and year-end closing;
  - *Accounting Policy – Period End Closing*;
  - *Policy on Sinking Fund<sup>4</sup> Transfer*;
  - *Related Party Transactions* policy;
  - *Contract Management* policy;
  - *Town Councillors and Committees Policies*;
  - *SOP for Calling of Quotations* and *Tender SOP* to establish requirements on the waiver of tenders and conflict of interest checks to be conducted for tenders; and
  - *Conflict of Interest Policy*, which has been extended to i) AHTC's Town Councillors to declare annually their potential conflicts of interest; and ii) include the requirements to declare paid and unpaid engagements and employment with external parties, personal financial interests and gifts; and

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<sup>3</sup> Where we refer to AHTC policy or procedure documents, we have italicized the title of the document.

<sup>4</sup> A fund established and maintained by Town Councils for improvements, management and maintenance relating to residential and commercial properties in their towns.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- Tender and quotation procedures to include i) the criteria required for any waiver of competition, tender or quotation; and ii) in the tender procedures, a requirement to perform vendor due diligence.
- Dissemination of AHTC's updated conflicts of interest declaration form to staff and Town Councillors, reflecting the revised *Conflict of Interest Policy*. All employees and Town Councillors have completed and returned the declarations.
- Generation and provision to KPMG of accounts payable, accounts receivable and general ledgers for the period January 2011 to December 2015 (the "Extracted Data"). We have reviewed the data integrity (i.e. the completeness, accuracy and consistency) of the Extracted Data. Our review identified certain inconsistencies between the Extracted Data and the data in the accounting platform used by AHTC to record and account for its transactions (the "Accounting System"). During March to April 2016, AHTC generated subsequent versions of the Extracted Data, which contained further inconsistencies. AHTC has investigated and resolved a number of these inconsistencies (one of which arose from the limitations of the Accounting System); others are yet to be resolved as at the date of this Monthly Report.
- Reporting to the Comptroller of Goods and Services Tax that AHTC is undertaking a self-review and will voluntarily disclose any errors identified to the Inland Revenue Authority of Singapore ("IRAS").

## **2.3 Status of the Audit Points**

2.3.1 The status of the Audit Points is summarized in the table overleaf:





**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

Report section	Audit Point	Status of Audit Points as at 13 May 2016		
		Resolved <sup>5</sup>	Remedial measures in progress	
			Remedial measures being taken by AHTC <sup>6</sup>	Further review/recommendations by KPMG <sup>7</sup>
<b>4.</b>	<b>Management of Sinking Fund</b>			
4.1.	Incorrect computation of required transfers to the Sinking Fund, and/or shortfall or delay in transfer to Sinking Fund bank accounts		✓	✓
4.2.	Incorrect use of Sinking Fund monies		✓	✓
<b>5.</b>	<b>Governance of related party transactions</b>			
5.1.	Incomplete disclosure of transactions with the Related Parties <sup>8</sup> in the financial statements		✓	✓
5.2.	Waiver of open tenders and competitive quotations for services provided by the Related Parties		✓	✓
5.3.	Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties		✓	✓

<sup>5</sup> The Audit Point has been remedied such that we are reasonably satisfied that AHTC is compliant with s35(c) of the TCA in this respect.

<sup>6</sup> Remediation Plans have been provided by AHTC and implemented either in part or in whole.

<sup>7</sup> KPMG is either reviewing information provided by AHTC, is reviewing AHTC's Remediation Plans, or has identified further elements that should be included in the Remediation Plans. Those recommendations which have been accepted by AHTC are included in the Remediation Plans.

<sup>8</sup> FM Solutions & Services Pte. Ltd. ("FMSS") and FM Solutions and Integrated Services (a sole proprietorship; "FMSI"; together with FMSS, the "Related Parties").

**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

Report section	Audit Point	Status of Audit Points as at 13 May 2016		
		Resolved <sup>5</sup>	Remedial measures in progress	
			Remedial measures being taken by AHTC <sup>6</sup>	Further review/ recommendations by KPMG <sup>7</sup>
5.4.	Weaknesses in the approval of payments to the Related Parties		✓	✓
5.5.	Approvals for services obtained and written agreements executed after the awarding and commencement of services provided by the Related Parties		✓	✓
<b>6.</b>	<b>Management of S&amp;CC arrears</b>			
6.1.	Management of S&CC arrears		✓	✓
<b>7.</b>	<b>Internal controls and procurement</b>			
7.1.	Weaknesses in the performance of bank reconciliations		✓	✓
7.2.	Weaknesses in controls over cheques received and valuable items and access to the strong room and safe	✓		
7.3.	Surprise examinations not conducted in accordance with TCFR <sup>9</sup>	✓		
7.4.	Weaknesses in procurement and payment-related processes		✓	✓

<sup>9</sup> The Town Councils Financial Rules.



**Aljunied-Hougang Town Council**  
 Monthly Report on Progress

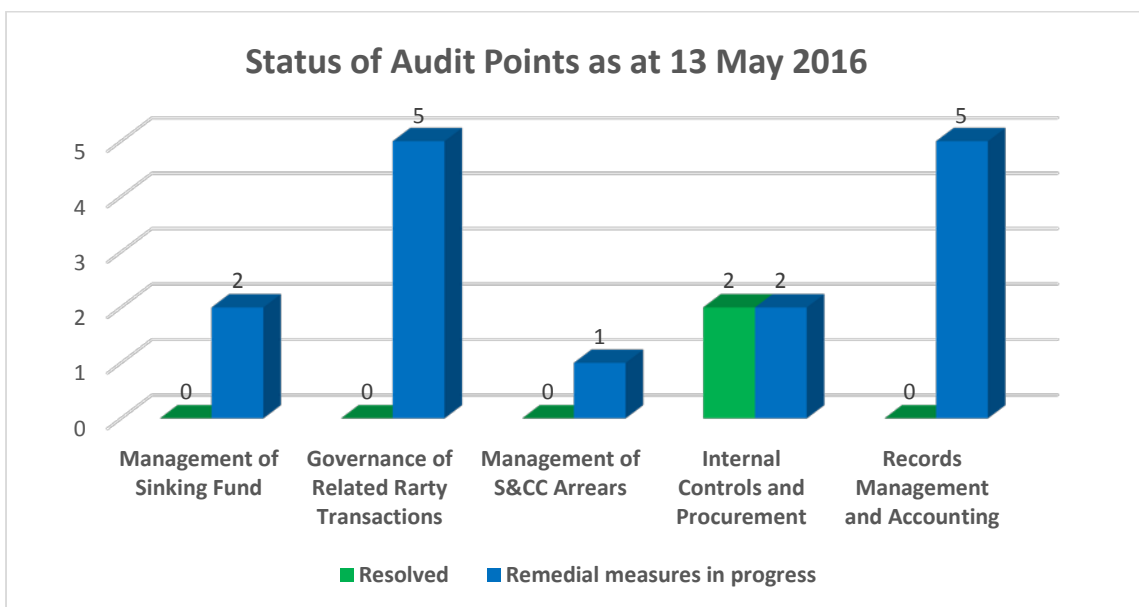
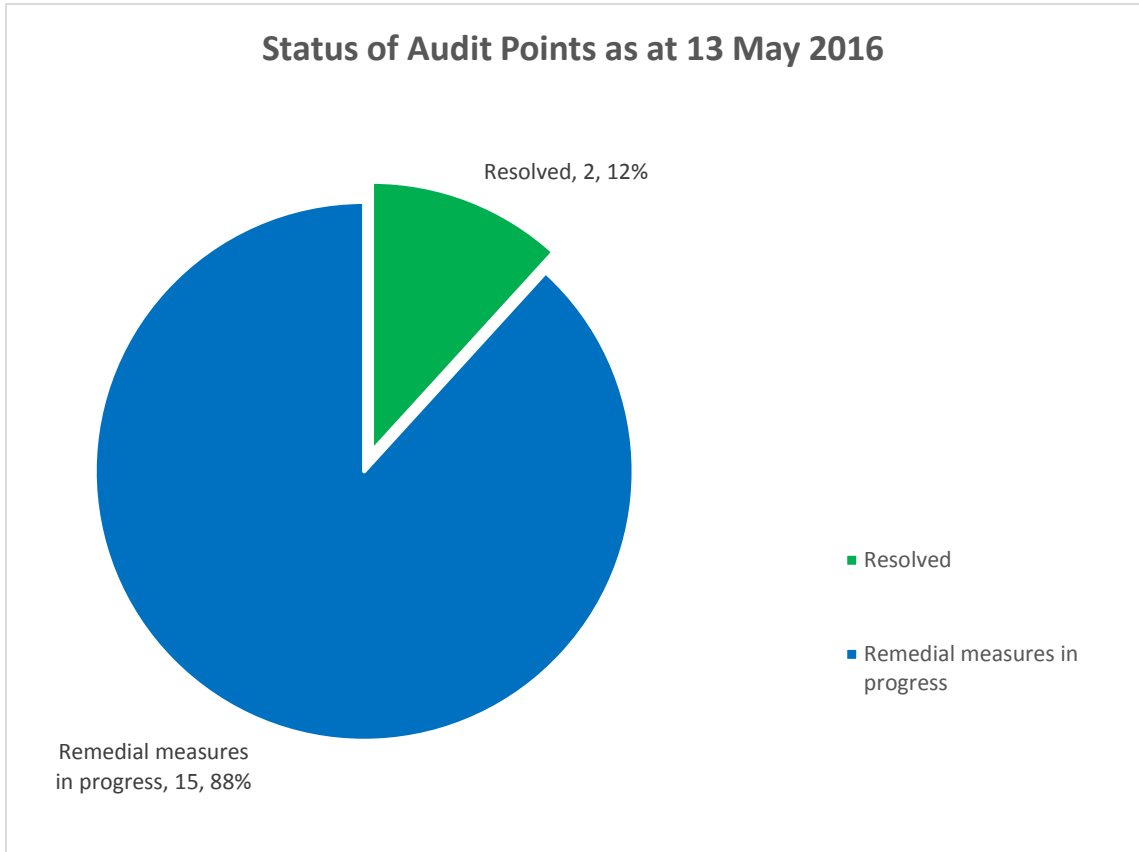
13 May 2016

Report section	Audit Point	Status of Audit Points as at 13 May 2016		
		Resolved <sup>5</sup>	Remedial measures in progress	
			Remedial measures being taken by AHTC <sup>6</sup>	Further review/ recommendations by KPMG <sup>7</sup>
<b>8.</b>	<b>Records management and accounting</b>			
8.1.	Weaknesses in the handover process and safeguarding of accounting records		✓	✓
8.2.	Untimely recording of lift repairs and upgrading expenses, and absence of guidelines for verification of works and issuance of work orders		✓	✓
8.3.	Absence of monitoring of and exercising diligence over collection from/payment to external parties and items in temporary clearing accounts		✓	✓
8.4.	Reconciliation of direct and indirect tax		✓	✓
8.5.	Opening balances		✓	✓

**Aljunied-Hougang Town Council**  
 Monthly Report on Progress

13 May 2016

2.3.2 The following diagrams summarize the current remediation status of the Audit Points:





13 May 2016

### **3 Status as at May 2016 Monthly Report: root causes**

#### **3.1 AHTC's governance framework and policy management**

##### *Progress update*

3.1.1 As described in our April 2016 Monthly Report, we have discussed and agreed with AHTC that it will implement the following, with completion targeted to be in July 2016:

- A governance and internal control framework; and
- A policy management process to manage the creation, updating and management of all corporate policies and procedures.

3.1.2 An initiative to review AHTC's policies and procedures, including areas where enhancement or development is required, is being led by AHTC's Head of Corporate Services. To date, we have been provided with:

- A revised *Town Councillors and Committees Policies* document containing the terms of reference for AHTC's committees (Audit, Estates & Community Liaison, Finance & Investment, and Tenders & Contracts), which AHTC informed us has been adopted by the Town Council on 12 May 2016.
  - We have reviewed the updated *Town Councillors and Committees Policies*. We have discussed and agreed with AHTC that it will more clearly define the mandates and powers of each committee.
- A document relating to IT back-up and disaster recovery<sup>10</sup> on 14 April 2016.
  - We have reviewed the documents relating to IT back-up and disaster recovery provided by AHTC. We have discussed and agreed with AHTC that it will create a formalized IT back-up and disaster recovery plan.

3.1.3 AHTC informed us that it has started preparatory work on its governance and control framework and its *Master Control* policy for the promulgation and control of internal policies and procedures.

##### *Recommendations*

3.1.4 Further recommendations are pending ongoing review.

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<sup>10</sup> The *Project Detailed Plan*.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

## **3.2 AHTC's accounting practices**

### *Progress update*

- 3.2.1 As identified in our April 2016 Monthly Report, there are shortcomings in AHTC's accounting practices that have consequences on AHTC's ability to test and reconcile accounting data for reliability.
- 3.2.2 AHTC provided us with a draft *Accounting Policy – Period End Closing* and draft *Period End Closing Checklist* on 29 April 2016, followed by revised drafts on 11 May 2016. We have discussed and agreed with AHTC that it will extend its policy to include:
- The roles and responsibilities of the Finance Department; and
  - Detailed procedures for period-end closing.
- 3.2.3 At the time of this Monthly Report, AHTC is working on the FYE 2016 closing. AHTC intends to complete the April month-end closing process within three weeks of month-end.
- 3.2.4 AHTC had informed us that, with effect for FYE 2017, it intends to close its accounts within three weeks of the relevant period and that bank reconciliations<sup>11</sup> will be completed at or shortly after the time of closing.
- 3.2.5 AHTC informed us that it intends to progressively implement the following measures with completion targeted to be in July 2016:
- Implement controls and maintain an audit trail for re-opening of locked accounting periods and back-posting of accounting entries;
  - Implement clear guidance on roles and responsibilities for Finance Department staff; and
  - Create an accounting manual covering accounting policies and procedures, in order to institutionalize practices and processes.
- 3.2.6 We have discussed and agreed with AHTC that, given weaknesses in the application of accounting practices and internal controls, AHTC will, following completion of our engagement, retain internal auditors to provide independent assurance that AHTC's risk management, governance and internal control processes are operating effectively.

### *Recommendations*

- 3.2.7 Further recommendations are pending ongoing review.

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<sup>11</sup> Section 7.1 of this Monthly Report describes the progress of AHTC's Remediation Plans for bank reconciliations.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

### **3.3 AHTC Finance Department's capability and management personnel retention**

#### *Progress update*

3.3.1 AHTC has recruited a second Deputy Finance Manager and engaged two external consultants to assist with:

- Remediating outstanding book-keeping matters;
- Resolving and closing 14 temporary clearing accounts; and
- Preparation for the forthcoming statutory audit.

#### *Recommendations*

3.3.2 Further recommendations are pending ongoing review.

### **3.4 AHTC's Accounting System**

#### *Progress update*

3.4.1 As identified in our April 2016 Monthly Report:

- The Accounting System uses accounting software that is heavily customized and is no longer supported with updates or by system integrators. It is not user-friendly and is unable to provide reports in a form that support accounting processes efficiently; in addition, difficulties have arisen in the process of extracting accounting data for use in this review.
- AHTC has issued a tender for prequalification of contractors for the "Design, Development including the Supply, Installation & Commissioning of IT Hardware & ERP Software" to replace the current Accounting System and incorporate other improvements. AHTC informed us that the vendor verification and vendor briefing has been completed and it is awaiting submissions from potential vendors.

3.4.2 AHTC has generated and provided us with the Extracted Data, i.e. accounts payable, accounts receivable and general ledgers for the period January 2011 to December 2015. We have reviewed the data integrity (i.e. the completeness, accuracy and consistency) of the Extracted Data. Our review identified certain inconsistencies in the Extracted Data. During March to April 2016, AHTC generated subsequent versions of the Extracted Data. We are working with AHTC to resolve the inconsistencies. Examples of the inconsistencies include:

- AHTC extracted a trial balance worksheet for use in verifying the Extracted Data:
  - The trial balance monthly movements in the trial balance worksheet do not match the movements in the general ledger for FYE 2014 in the Extracted Data; and



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- For certain accounts in FYE 2015, the sum of the trial balance monthly movements in the trial balance worksheet, when totalled manually, does not match the total column in the trial balance worksheet. This is currently being investigated by AHTC.
- The general ledgers in the Extracted Data for the months of July 2011, August 2011, January 2012, and March 2012 did not balance, which suggested that the Extracted Data were incomplete and/or erroneous. AHTC has since investigated the discrepancies for those months and reconciled them.
- The general ledgers in the Extracted Data initially provided for the months of January 2014 to March 2014 were incomplete. AHTC has since provided new Extracted Data with the general ledgers for that period, which has resolved this issue.
- The number of lines of data in the accounts payable and general ledgers in the Extracted Data for the month of November 2015 did not match the number of lines of data as provided to us by AHTC from the accounts payable and general ledgers in the Accounting System. AHTC has investigated and resolved this issue, which arose from the limitations of the Accounting System.
- When we compared the general ledgers in the Extracted Data provided between 29 April 2016 and 5 May 2016 against the versions that were initially provided, we noted that these contained duplicate accounting entries for the months of April 2013, February 2014, and the period from May 2014 to September 2014. We have identified and removed the duplicate accounting entries.

**3.4.3 AHTC has agreed to the following measures, which at the date of this Monthly Report have yet to be implemented:**

- Ensure the general ledger control accounts in the Accounting System are appropriately configured so that the balances in the general ledger accounts are derived from, and balances match with, the corresponding sub-ledgers; and
- Arrange for the provision of detailed transaction reports to provide the information required for AHTC's Finance Department to perform review and to substantiate management and financial reporting.

***Recommendations***

**3.4.4 Further recommendations are pending ongoing review.**





13 May 2016

## **4 Status as at May 2016 Monthly Report: management of Sinking Fund**

### **4.1 Incorrect computation of required transfers to the Sinking Fund, and/or shortfall or delay in transfer to Sinking Fund bank accounts**

#### *Remediation Plan progress*

- 4.1.1 AHTC has provided us with a draft *Policy on Sinking Fund Transfer*. We have discussed and agreed with AHTC that, to support this policy, AHTC will incorporate procedures for transfers to its Sinking Fund to include:
- Calculation of Sinking Fund transfers;
  - Ensuring the timeliness, accuracy and completeness of transfers;
  - Review and approval of Sinking Fund transfers; and
  - Standardized documentation and supporting documentation requirements for calculation, review and approval of Sinking Fund transfers.
- 4.1.2 We have completed reviewing the historical transfers to the Sinking Fund for the period from April 2014 to March 2016 to verify that the required amounts were transferred to the Sinking Fund bank accounts:
- AHTC's bank transfers are for the full value of the billed S&CC and Goods & Services Tax ("GST") subvention grants attributable to the Sinking Fund. The GST subvention grants amounts that have not yet been received by AHTC were not deducted. This resulted in the sum transferred to the Sinking Fund bank accounts being larger than the required amount.
  - There was a duplicate transfer of SGD157,141.01 to a Sinking Fund bank account for the GST subvention grant attributable to the Sinking Fund for the period October 2014 to December 2014. The first transfer was made on 16 March 2015 and the duplicate transfer was made on 9 July 2015. AHTC informed us that it will be transferring a sum of SGD157,141.01 back to its Operating Fund<sup>12</sup> by the end of May 2016.
- 4.1.3 We were provided with supporting documentation for the transfers prior to April 2014 on 6 May 2016 but have not yet completed reviewing them.
- 4.1.4 AHTC made a payment of SGD3,755,044.86 to its Sinking Fund bank accounts on 29 April 2016 in respect of the period January to March 2016, which includes the amount attributable to the GST subvention fund. The TCA requires the transfer to be made by the end of the month following each quarter. This payment was made within the transfer deadline.

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<sup>12</sup> Fund for short-term routine expenditure, e.g. estate cleaning, repairs and maintenance.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

*Recommendations and status*

- 4.1.5 This Audit Point remains unresolved pending ongoing review and further recommendations.

**4.2 Incorrect use of Sinking Fund monies**

*Remediation Plan progress*

- 4.2.1 We have reviewed a sample of 20 transactions from April 2015 to March 2016. The sample selected complied with AHTC's guidelines on the types of expenses for which the Sinking Fund may be used. It is intended that, once the Extracted Data have been verified, further review will be undertaken.

*Recommendations and status*

- 4.2.2 The Remediation Plans for this Audit Point have been implemented. Further recommendations, if any, are pending the completion of testing.



13 May 2016

## **5 Status as at May 2016 Monthly Report: governance of related party transactions**

### **5.1 Incomplete disclosure of transactions with the Related Parties in the financial statements**

#### *Remediation Plan progress*

5.1.1 We have reviewed a draft *Related Party Transactions* policy provided by AHTC on 29 April 2016; a revised version of this policy was provided to us on 12 May 2016, which we are yet to review. Based on our review of the policy received on 29 April 2016, we had discussed and agreed with AHTC that its *Related Party Transactions* policy should:

- Cover a wider range of activities (it currently covers only the tender process);
- Incorporate procedures for related party transactions to include review, approval, monitoring and tracking to ensure compliance with s35(c) of the TCA and FRS 24 *Related Party Disclosures*;
- Be adapted to reflect better the nature of a town council; and
- Have certain definitions tightened, for example “material” or “arms-length transaction”.

5.1.2 We are reviewing transactions undertaken by AHTC to identify any further transactions with the Related Parties after the contracts with them ended. It is intended that, once the Extracted Data have been verified:

- Further review will be undertaken; and
- Related party transactions will be included in the work performed pursuant to our separate report on past payments made by AHTC/AHPETC (the “Past Payments Report”).

#### *Recommendations and status*

5.1.3 This Audit Point remains unresolved pending ongoing review and further recommendations.



13 May 2016

## **5.2 Waiver of open tenders and competitive quotations for services provided by the Related Parties**

### *Remediation Plan progress*

- 5.2.1 The procedures on the calling of tenders<sup>13</sup> and quotations<sup>14</sup> were revised to include requirements on the waiver of tenders in April 2016. A revised version of these policies were provided to us on 12 May 2016, which we are yet to review.
- 5.2.2 Testing of the operating effectiveness of AHTC's tender and quotation procedures remains ongoing.

### *Recommendations and status*

- 5.2.3 This Audit Point remains unresolved pending ongoing review and further recommendations.

## **5.3 Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties**

### *Remediation Plan progress*

- 5.3.1 AHTC's *Conflict of Interest Policy* has been updated to include requirements to declare paid and unpaid engagements and employment with external parties, personal financial interests and gifts:
- AHTC's updated conflicts of interest declaration form was disseminated to staff on 9 April 2016 and reflected the revised *Conflict of Interest Policy*.
  - In addition to its management and employees, AHTC has extended its *Conflict of Interest Policy* to its Town Councillors to declare their potential conflicts of interest annually.
  - AHTC disseminated the conflicts of interest declaration form to Town Councillors for completion and submission by 12 May 2016. All 23 Town Councillors have completed and returned the forms as at 13 May 2016.
- 5.3.2 The procedures on the calling of tenders were revised in February 2016 to include checks to be conducted on shareholders and directors of potential vendors and a comparison of the checks with AHTC's staff list and conflicts of interest declarations. We received revised procedures from AHTC on 12 May 2016 which we are yet to review.

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<sup>13</sup> Titled *Tender SOP*.

<sup>14</sup> Titled *SOP for Calling of Quotations*.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- 5.3.3 Based on our review of the procedures revised in February 2016, we have discussed and agreed with AHTC that its tender and quotation policies and procedures will be updated to include:
- Roles and responsibilities of the Contracts Department;
  - Requirements for due diligence checks and evaluation of the competency of vendors;
  - Independent sourcing and assessment of vendors by the Contracts Department, rather than reliance on the recommendations of the user department; and
  - Requirements for checks to be conducted on shareholders and directors of potential vendors and a comparison of the checks with AHTC's staff list and conflicts of interest declarations in the quotation policy and procedures.
- 5.3.4 Testing of the operating effectiveness of AHTC's tender and quotation procedures remains ongoing.

*Recommendations and status*

- 5.3.5 This Audit Point remains unresolved pending ongoing review and further recommendations.

## **5.4 Weaknesses in the approval of payments to the Related Parties**

*Remediation Plan progress*

- 5.4.1 As described in our April 2016 Monthly Report, the meeting minutes for the Town Council meeting of August 2011 record that AHTC required that all payments to FMSS, regardless of amount, must be co-signed by AHTC's Chairman or Vice-Chairman, who held no interests in FMSS.
- 5.4.2 We have reviewed a sample of 20 transactions from April 2015 to March 2016. The sample selected complied with the above requirement relating to co-signatories. It is intended that, once the Extracted Data have been verified, all historical transactions with the Related Parties will be included in the work performed pursuant to the Past Payments Report.

*Recommendations and status*

- 5.4.3 This Audit Point remains unresolved pending ongoing review and further recommendations.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

## **5.5 Approvals for services obtained and written agreements executed after the awarding and commencement of services provided by the Related Parties**

### *Remediation Plan progress*

5.5.1 We have reviewed a draft *Contract Management* policy provided by AHTC on 29 April 2016; a revised version of this policy was provided to us on 12 May 2016, which we are yet to review. Based on our review of the policy received on 29 April 2016, we had discussed and agreed with AHTC that its *Contract Management* policy should:

- Be extended to cover contracts that are not awarded through tender;
- Align requirements concerning the timing of actions on expiring contracts to those in AHTC's tender procedures;
- State the requirement to have a signed contract prior to commencement of works or services; and
- Specify the monitoring mechanism for suppliers with a poor service record, for example breaches of contract.

### *Recommendations and status*

5.5.2 This Audit Point remains unresolved pending ongoing review and further recommendations.



13 May 2016

## **6 Status as at May 2016 Monthly Report: management of S&CC arrears**

### **6.1 Management of S&CC arrears**

#### *Remediation Plan progress*

- 6.1.1 The AGO's Report identified certain discrepancies between the S&CC arrears reports provided to MND and those provided to the AHTC Finance & Investment Committee. AHTC has provided us with the accounts receivable sub-ledgers as at 31 March 2015, which were prepared by an external consultant. The balances in the sub-ledgers provided do not match the trial balances for the same period.
- 6.1.2 We have been provided with an explanation of how the S&CC receivables attributable to the Sinking Fund as presented in the audited financial statements are calculated. We compared the numbers in the worksheet, derived from the accounts receivable sub-ledger, used by AHTC to calculate S&CC arrears attributable to the Sinking Fund to the numbers in the FYE 2015 audited financial statements, which did not match<sup>15</sup>. AHTC is currently investigating the reasons for the difference.
- 6.1.3 AHTC informed us that S&CC arrears data can now be automatically generated for reporting to MND<sup>16</sup> in the required format<sup>17</sup>. AHTC has resubmitted the past year's (i.e. April 2015 to February 2016) arrears reports to HDB with the March 2016 arrears report.
- 6.1.4 AHTC provided us with a *User & Technical Manual – Automated Generation of Monthly HDB S&CC Arrears Report* on 7 May 2016, which we have yet to review against the S&CC arrears report generation procedure.
- 6.1.5 The AGO's Report identified incorrect amendments of the "identifiers" (i.e. bill codes) in the Accounting System. We have sought details of how the errors arose. AHTC is not able to provide details of the maintenance process for bill codes and is working with its IT consultant to address our queries.

#### *Recommendations and status*

- 6.1.6 This Audit Point remains unresolved pending ongoing review and further recommendations.

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<sup>15</sup> The S&CC receivables attributable to the Sinking Fund as presented in the audited financial statements are SGD1,435,679; the worksheet records a total of SGD1,283,335.68.

<sup>16</sup> While the monthly arrears reports are addressed to HDB, HDB informed us that they receive the submission on behalf of MND.

<sup>17</sup> As HDB receives the S&CC arrears reports on behalf of MND, the requirements of the reports are those of MND. Our April 2016 Monthly Report attributed the requirements to HDB.



13 May 2016

## **7 Status as at May 2016 Monthly Report: internal controls and procurement**

### **7.1 Weaknesses in the performance of bank reconciliations**

#### *Remediation Plan progress*

- 7.1.1 AHTC has six bank accounts (three for its Operating Fund and three for its Sinking Fund). Two of these bank accounts were opened in April 2016. AHTC's Finance Department performs monthly bank reconciliations on each of its bank accounts, except for the two newly opened bank accounts since AHTC had yet to finalize its April 2016 accounts.
- 7.1.2 Bank reconciliations have been performed to the end of March 2016. We have reviewed the March 2016 bank reconciliations:
- Of the 17 unrepresented cheques totalling SGD677,105.91 over six months old referred to in our April 2016 Monthly Report:
    - Two unrepresented cheques totalling SGD14,947.90 have been cancelled and re-issued and the voiding entries posted to the general ledger;
    - Fifteen unrepresented cheques over six months old totalling SGD662,158.01 remained unresolved<sup>18</sup> as at the date of the March 2016 bank reconciliations;
  - A further ten unrepresented cheques totalling SGD724.25 are, at the date of the March 2016 bank reconciliation, over six months old; and
  - There are therefore 25 unrepresented cheques over six months old at the date of the March 2016 bank reconciliations, totalling SGD662,882.26.
- 7.1.3 AHTC has (after the completion of the March 2016 bank reconciliations) posted entries removing all unrepresented cheques older than six months (with the exception of one cheque in the sum of SGD10.55). We have been provided with the voiding entries but have not yet been provided with the supporting documentation for those entries.
- 7.1.4 The review of AHTC's bank reconciliations and testing the operating effectiveness of the bank reconciliation process is ongoing.

#### *Recommendations and status*

- 7.1.5 This Audit Point remains unresolved pending ongoing review and further recommendations.

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<sup>18</sup> Five of the 15 unrepresented cheques were cancelled and reissued, while one was cancelled and reissued with a lower amount, but the voiding entries have not been posted to the general ledger.





**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

## **7.2 Weaknesses in controls over cheques received and valuable items and access to the strong room and safe**

7.2.1 This Audit Point has been resolved.

## **7.3 Surprise examinations not conducted in accordance with TCFR**

7.3.1 This Audit Point has been resolved.

## **7.4 Weaknesses in procurement and payment-related processes**

### *Remediation Plan progress*

7.4.1 An initiative to review AHTC's policies and procedures, including areas where enhancement or development is required, is being led by AHTC's Head of Corporate Services.

7.4.2 AHTC has revised its tender and quotation procedures to include:

- The criteria required for any waiver of competition, tender or quotation; and
- In its tender procedures, a requirement to perform vendor due diligence.

7.4.3 AHTC's quotation procedures are pending the inclusion of:

- A requirement to perform vendor due diligence;
- A requirement to establish a recommended vendors listing; and
- A requirement to review and update the recommended vendors listing and perform periodic vendor evaluation.

7.4.4 Testing of the operating effectiveness of the implemented procurement and payment-related policies and procedures<sup>19</sup> is ongoing.

### *Recommendations and status*

7.4.5 This Audit Point remains unresolved pending ongoing review and further recommendations.

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<sup>19</sup> The Tender SOP, SOP for the Calling of Quotations, Flow Chart for Closing of Work Order & Invoicing, Flow Chart for Issuance of Written Instruction & Work Order, and Work Order AP Process Flow for AS400.



13 May 2016

## **8 Status as at May 2016 Monthly Report: records management and accounting**

### **8.1 Weaknesses in the handover process and safeguarding of accounting records**

#### *Remediation Plan progress*

- 8.1.1 As described in our April 2016 Monthly Report, we have discussed and agreed with AHTC that it will implement written policies and supporting procedures for the handing and taking-over of duties and records, arrangements for the back-up of data, data management and record retention for all departments, to be progressively implemented with completion targeted for July 2016.
- 8.1.2 We have reviewed the documents relating to IT back-up and disaster recovery provided by AHTC and recommended the creation of a formalized IT back-up and disaster recovery plan (as described at section 3.1 of this Monthly Report).

#### *Recommendations and status*

- 8.1.3 This Audit Point remains unresolved pending ongoing review and further recommendations.

### **8.2 Untimely recording of lift repairs and upgrading expenses, and absence of guidelines for verification of works and issuance of work orders**

#### *Remediation Plan progress*

- 8.2.1 AHTC informed us that certain variance analyses are performed on AHTC's budget and actual expenditure:
- *Ad hoc* variance analyses of its budget and actual expenditure has been performed by the General Manager of the Estate Department for estate-related expenses captured in the IT system used to record work orders (the "Work Order System")<sup>20</sup>.
  - The Finance Department has started performing variance analyses on AHTC's budget and actual expenditure for the Operating Fund, to be prepared monthly. The first variance analysis was presented to the Finance & Investment Committee on 5 May 2016.

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<sup>20</sup> However, these are not documented; accordingly, we have not reviewed the analyses.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- The terms of reference for the Finance & Investment Committee have been updated to include review of variance analyses of budget and actual expenditure to ensure that expenses are appropriately controlled and within estimates.

**8.2.2 AHTC informed us that its Work Order System is capable of tracking actual expenses against budget (both annual and supplementary estimates) and that most payables, except for lift upgrade and utilities, are required to be created through the Work Order System.**

- Work orders are created in the Work Order System once the work is completed. A liability is created in the Accounting System once a work order is closed and posted in the Work Order System. Liabilities for partially completed work are not therefore captured in the Work Order System.
- AHTC has informed us that it will consider expanding the use of the Work Order System to include other categories of expenditure to assist in tracking budget utilization.

**8.2.3 We selected 20 payments and tested them to identify if work had commenced prior to the approval of the service and/or signing of the contract. We identified one instance where work was started prior to the signing of articles of agreement and the budget was exceeded. It is intended that, once the Extracted Data have been verified, further review will be undertaken.**

- Of the sample reviewed, one payment of SGD155,410.46 on 15 December 2015 (FYE 2016) for lift maintenance services rendered between September 2013 and October 2014 was processed directly in the Accounting System without using the Work Order System:
  - The Work Order System prevents the processing of work orders which would result in AHTC's gazetted budget<sup>21</sup> being exceeded.
  - The cost of the works performed amounted to SGD20,545.50 in FYE 2014 and SGD124,697.93 in FYE 2015. AHTC accrued a sum of SGD146,243.44<sup>22</sup> in FYE 2015 on 31 March 2015. This accrual was reversed in the subsequent financial year on 1 April 2015 and a payable recorded on 30 November 2015.
  - AHTC informed us that this expenditure would have resulted in AHTC exceeding its FYE 2015 budget for the expense category "Repairs and Maintenance" but that the overall budget for FYE 2015 was not exceeded. AHTC did not include this expenditure in its gazetted supplementary estimates for FYE 2015.

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<sup>21</sup> Town councils are obliged under TCFR Rule 9 to publish their annual estimates for a financial year in the *Gazette* within three months of the commencement of that financial year. Where expenditure is anticipated to exceed the annual budget, either overall or for a given category of expense (referred to as "sub-heads" in the TCFR), under TCFR Rule 10, supplementary estimates must be submitted and approved by a town council and published in the *Gazette*.

<sup>22</sup> The payment of SGD155,410.46 equals the sum of the cost of works performed of SGD145,243.43 plus GST of SGD10,167.03. The amount initially accrued was greater than the cost of the works performed by SGD1,000.01 because certain work by the vendor was ultimately rejected by AHTC.



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

*Recommendations and status*

8.2.4 This Audit Point remains unresolved pending ongoing review and further recommendations.

**8.3 Absence of monitoring of and exercising diligence over collection from/payment to external parties and items in temporary clearing accounts**

*Remediation Plan progress*

8.3.1 The AGO's Report identified collections that were not updated to reflect their current status and payments that were not matched to or reversed from accrued expenses.

8.3.2 The Accounting System does not produce supporting schedules for receivables and "other" payables (those that are not tracked using the accounts payable sub-ledger) balances. We have been provided with Extracted Data for payables and receivables. It is intended that, once the Extracted Data have been verified, further review will be undertaken.

8.3.3 AHTC has 14 temporary clearing accounts, of which two have zero balances. Monthly schedules are not prepared to support the balances in these accounts. We have requested AHTC to explain the nature and purpose of these 14 temporary clearing accounts and prepare detailed breakdowns of the balances for each of them.

*Recommendations and status*

8.3.4 This Audit Point remains unresolved pending ongoing review and further recommendations.

**8.4 Reconciliation of direct and indirect tax**

*Remediation Plan progress*

8.4.1 We have highlighted to AHTC that there are timing errors in its GST calculations. On 16 April 2016, AHTC informed the Comptroller of Goods and Services Taxes that it is undertaking a self-review and will voluntarily disclose any errors identified to IRAS.

8.4.2 AHTC informed us that, for the quarter ended 31 March 2016 GST return, it did the following:

- GST input tax is now claimed upon receipt of invoices from suppliers instead of on work order accruals (when the work is completed but not billed);



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- For GST output tax that should have been applied to legal fees billed to debtors, AHTC has reported the output tax to IRAS and absorbed the output GST amount; and
- For those S&CC monies received in advance, GST output tax is now reported on receipt; previously, GST output tax on S&CC was reported only upon billing.

*Recommendations and status*

- 8.4.3 This Audit Point remains unresolved pending ongoing review and further recommendations.

## 8.5 Opening balances

*Remediation Plan progress*

- 8.5.1 In its audit report on AHTC's financial statements for FYE 2013, dated 4 February 2014, Foo Kon Tan Grant Thornton LLP listed 13 matters as the basis for its disclaimer of opinion.
- 8.5.2 Of these 13 matters, Audit Alliance LLP stated that all but three had been resolved in its audit report dated 24 August 2015 on AHTC's financial statements for FYE 2015 where it also expressed a disclaimer of opinion. Audit Alliance LLP also reported it was not able to perform audit procedures on two brought forward balances identified in the AGO's Report.
- 8.5.3 The following are the opening/brought forward balances not resolved as at the date of Audit Alliance LLP's disclaimer of opinion:
- Other receivables of SGD90,113;
  - Reimbursement from Citizens Consultative Committee of SGD306,972;
  - Trade payables and accrued operating expenses of SGD22,955;
  - Allowance for impairment for conservancy and service receivables of SGD215,469.75; and
  - Conservancy and service fees received in advance of SGD507,809.
- 8.5.4 We are reviewing the steps taken by AHTC in relation to the 10 resolved opening balances. For the remainder, we are currently obtaining and reviewing supporting documents to understand the nature of the unresolved balances.
- 8.5.5 AHTC has provided us with a worksheet, created in April 2015, detailing AHTC's proposals for correction of the opening balances. We have requested AHTC to provide us with the following for review:
- An updated worksheet to reflect all the accounting entries that have been posted to the general ledger in respect of the adjustments made to resolve the opening balances;



**Aljunied-Hougang Town Council**  
Monthly Report on Progress

13 May 2016

- The supporting documents for all of the adjusting entries; and
- The entries that make up the opening balances and the relevant supporting documents.

*Recommendations and status*

8.5.6 This Audit Point remains unresolved pending ongoing review and further recommendations.