



# Ajunied- Hougang Town Council

## Monthly Report on Progress

KPMG LLP

15 June 2016

This report contains 32 pages



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**Monthly Report on Progress**

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## 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
GRC	Group Representation Constituency
GST	Goods & Services Tax
HDB	Housing Development Board
IRAS	Inland Revenue Authority of Singapore
Job Sheet	Confirmation received from supplier on completion of work and/or service rendered
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
NEA	National Environment Agency
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
Past Payments Review Period	27 May 2011 to 27 November 2015
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



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Term	Definition
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



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## **1 Our engagement**

### **1.1 This report**

- 1.1.1 This is the third 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 previous Monthly Reports. It should be read in conjunction with those Monthly Reports.
- 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.

### **1.2 Past payments review**

- 1.2.1 We have been provided with the accounts payable, accounts receivable and general ledgers for the period January 2011 to December 2015 generated by AHTC (“Extracted Data”). The general ledger contains 6,738,319 journal entries for the period from 27 May 2011 to 27 November 2015 (the “Past Payments Review Period”).
- 1.2.2 We have commenced work on the review of payments (the “Past Payments Review”) made by AHTC during the Past Payments Review Period.

#### *Use of this Monthly Report*

- 1.2.3 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

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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.



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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.

- 1.2.4 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.
- 1.2.5 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.



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## **2 Summary of status as at June 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 previous Monthly Reports 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 15 June 2016**

2.2.1 Since our May 2016 Monthly Report, AHTC has made progress on its Remediation Plans, including:

- The implementation of:
  - A process to follow up on bank reconciling items;<sup>3</sup>
  - *Accounting Policy – Period End Closing and Period End Closing Checklist*; and
  - *Contract Management Policy*.
- Recruitment of two accountants on 26 May 2016 and 13 June 2016 respectively.
- The commencement of investigation of the outstanding items in its temporary clearing accounts.

2.2.2 Since our May 2016 Monthly Report, we have been provided with, and made recommendations in respect of, drafts or revised versions of the following:

- *Information and Data Security Policy*; and
- *Back-up and Data Retention Policy*.

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

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

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<sup>3</sup> Differences between balances in the bank statements and the general ledger.



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Report section	Audit Point	Status of Audit Points as at 15 June 2016		
		Resolved <sup>4</sup>	Remedial measures in progress	
			Remedial measures being taken by AHTC <sup>5</sup>	Further review/ recommendations by KPMG <sup>6</sup>
<b>4.</b>	<b>Management of Sinking Fund<sup>7</sup></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		✓	✓

<sup>4</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>5</sup> Remediation Plans have been implemented by AHTC either in part or in whole. Further comments, if any, are subject to the completion of testing.

<sup>6</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>7</sup> Fund established and maintained by Town Councils for improvements, management and maintenance relating to residential and commercial properties in their towns.

<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").



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Report section	Audit Point	Status of Audit Points as at 15 June 2016		
		Resolved <sup>4</sup>	Remedial measures in progress	
			Remedial measures being taken by AHTC <sup>5</sup>	Further review/ recommendations by KPMG <sup>6</sup>
5.3.	Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties		✓	✓
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 Service &amp; Conservancy Charges ("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	✓		

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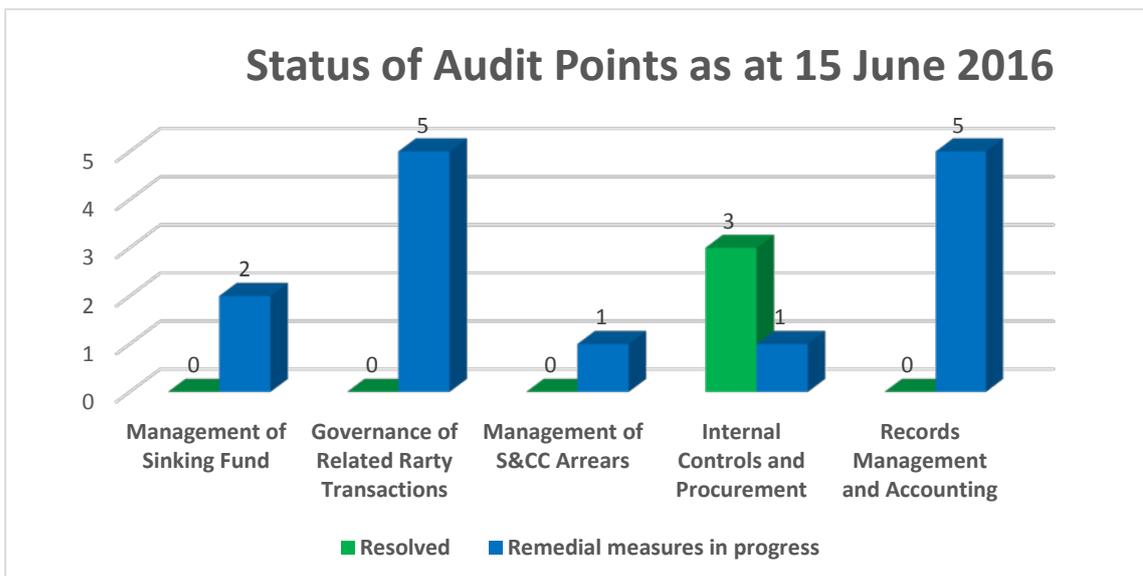
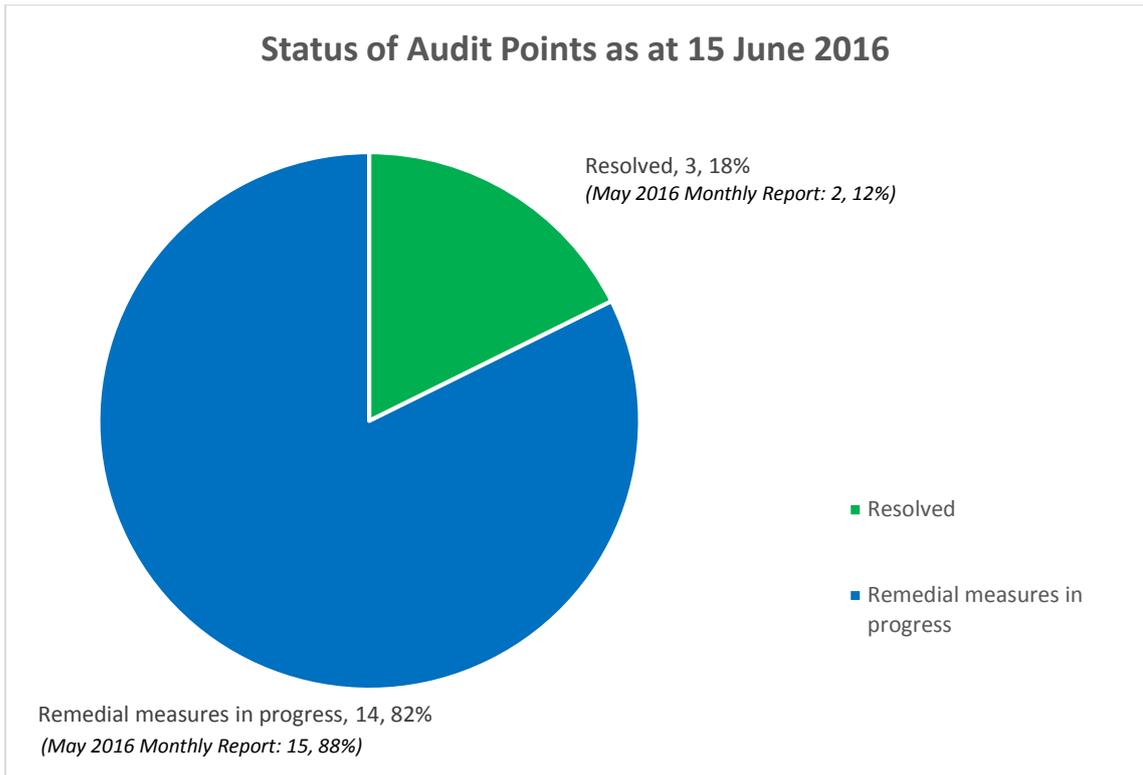
Report section	Audit Point	Status of Audit Points as at 15 June 2016		
		Resolved <sup>4</sup>	Remedial measures in progress	
			Remedial measures being taken by AHTC <sup>5</sup>	Further review/ recommendations by KPMG <sup>6</sup>
7.3.	Surprise examinations not conducted in accordance with TCFR <sup>9</sup>	✓		
7.4.	Weaknesses in procurement and payment-related processes		✓	✓
<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		✓	✓

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

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





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

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

##### *Remediation Plan*

##### **3.1.1 AHTC is to implement the following:**

- A governance and internal control framework;
- A policy management process to govern the creation, updating and management of all corporate policies and procedures; and
- Policies and procedures in areas where enhancement or development is required.

##### *Remediation Plan items outstanding as at June 2016 Monthly Report*

##### **3.1.2 As described in our previous Monthly Reports, AHTC has started preparatory work on the following with completion targeted to be in July 2016:**

- A governance and internal control framework; and
- A *Master Control* policy for the promulgation and control of internal policies and procedures.

##### **3.1.3 Since our May 2016 Monthly Report, AHTC:**

- Has provided us with a draft *Backup and Data Retention Policy* and *Information and Data Security Policy* on 3 June 2016, in respect of which we have made further recommendations (refer to section 8.1.1); and
- Is reviewing its *Town Councillors and Committees Policies* document in light of the Ministry of National Development's ("MND") briefing slides issued to town councils on 13 May 2016.

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

##### *Remediation Plan*

##### **3.2.1 AHTC is to implement the following:**

- Clear guidance on roles and responsibilities for Finance Department staff;
- An accounting manual covering accounting policies and procedures, in order to institutionalize practices and processes; and
- Controls for accounting procedures, including controls and maintenance of audit trail for re-opening of locked accounting periods and back-posting of accounting entries.



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- 3.2.2 Following completion of KPMG’s engagement, AHTC is to engage internal auditors to provide independent assurance that AHTC’s risk management, governance and internal control processes are operating effectively.

*Remediation Plan items completed since our May 2016 Monthly Report*

- 3.2.3 AHTC has:

- Implemented its *Accounting Policy – Period End Closing and Period End Closing Checklist*;
- Closed its accounts for FYE 2016 and April 2016 month-end; and
- Investigated outstanding reconciling items in its bank reconciliations.<sup>10</sup>

*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 3.2.4 As described in our previous Monthly Reports, AHTC is to:

- Implement an accounting manual covering accounting policies and procedures, in order to institutionalize practices and processes, by July 2016;
- Progressively implement controls and maintain an audit trail for re-opening of locked accounting periods and back-posting of accounting entries by July 2016; and
- Engage internal auditors, following the completion of KPMG’s engagement, to provide independent assurance that AHTC’s risk management, governance and internal control processes are operating effectively.

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

*Remediation Plan*

- 3.3.1 AHTC is to strengthen the capabilities of the Finance Department.

*Remediation Plan items completed since our May 2016 Monthly Report*

- 3.3.2 AHTC recruited two more accountants on 26 May 2016 and 13 June 2016 respectively.

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<sup>10</sup> Section 7.1 of this Monthly Report describes the progress of AHTC’s Remediation Plans for bank reconciliations.



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

#### *Remediation Plan*

3.4.1 AHTC is to replace the current Accounting System financial modules and incorporate other improvements.

3.4.2 In the interim, AHTC is to implement the following measures:

- 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 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.

#### *Remediation Plan items completed since our May 2016 Monthly Report*

3.4.3 AHTC configured its Accounting System to disallow direct postings to general ledger control accounts on 14 June 2016.

#### *Remediation Plan items outstanding as at June 2016 Monthly Report*

3.4.4 AHTC is to implement a balance sheet substantiation process.



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## **4 Status as at June 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**

#### *Observations*

##### **4.1.1 Since our May 2016 Monthly Report,**

- AHTC corrected the duplicate transfer of SGD157,141.01 on 19 May 2016.
- We have reviewed the historical transfers to Sinking Fund bank accounts for FYE 2012 to FYE 2014:
  - For FYE 2012 to FYE 2014, AHTC transferred S&CC attributable to the Sinking Fund on a receipt basis<sup>11</sup> to the Sinking Fund bank accounts; and
  - AHTC has re-computed its Sinking Fund transfers for the period FYE 2012 to FYE 2014, after considering S&CC received, grants-in-aid, payments of Operating Fund expenses from Sinking Fund bank accounts, and payments of Sinking Fund expenses from Operating Fund bank accounts.
  - AHTC had transferred, for the period FYE 2012 to FYE 2014, the aggregate sum of SGD50,176,747<sup>12</sup> to its Sinking Fund bank accounts. We are in the process of verifying AHTC's computation of this sum.<sup>13</sup>

#### *Remediation Plan*

##### **4.1.2 AHTC is to:**

- Implement a policy, supported by procedures, to govern transfers to the Sinking Fund bank accounts; and
- Rectify any erroneous and/or delayed transfers to the Sinking Fund bank accounts.

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<sup>11</sup> TCFR 4(2B) provides that within one month of the end of each quarter of each financial year, Town Councils shall (a) transfer to the bank account of the sinking funds the amount of S&CC, grants-in-aid and interest that are payable to the sinking funds and that were received by the Town Council; and (b) reflect the outstanding S&CC and interest that are payable to the sinking funds as a debt owing to the sinking fund in the books of account.

<sup>12</sup> Bank transfers totalling SGD37,324,143 to Sinking Fund bank accounts, and deemed transfers from the Operating Fund (i.e. a fund for short-term routine expenditure, e.g. estate cleaning, repairs and maintenance), being payments totalling SGD12,852,604 made from the Operating Fund for Sinking Fund expenses. Payments made out of the Operating Fund for Sinking Fund expenditure will be tested as part of our Past Payments Review.

<sup>13</sup> This sum excludes the portion related to input GST claimed from IRAS that is attributable to Sinking Fund from FYE 2013 onwards. GST input tax claimed on Sinking Fund expenditure that should have been transferred to the Sinking Fund bank accounts is addressed in section 8.4.



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*Remediation Plan items completed as described in our previous Monthly Reports*

- 4.1.3 AHTC transferred the Sinking Fund amount for the period January to March 2016 to its Sinking Fund bank account within the month following the first quarter.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 4.1.4 AHTC has provided us with a draft *Policy on Sinking Fund Transfer*. We have agreed with AHTC that AHTC will incorporate procedures for transfers to its Sinking Fund to include:

- Calculation of Sinking Fund transfers from income sources other than S&CC (e.g. input GST and government grants);
- Ensuring the accuracy and completeness of transfers; and
- Standardized documentation and supporting documentation requirements for calculation, review and approval of Sinking Fund transfers.

## **4.2 Incorrect use of Sinking Fund monies**

*Remediation Plan*

- 4.2.1 AHTC is to:

- Implement guidelines on the types of expenses for which the Sinking Fund may be used; and
- Identify and rectify instances where monies in the Sinking Fund bank accounts were incorrectly used.

*Remediation Plan items completed as described in our previous Monthly Reports*

- 4.2.2 AHTC implemented its *Sinking Fund Expense Guidelines*, which set out the types of expenses for which the Sinking Fund may be used, in January 2016.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 4.2.3 AHTC is to identify and rectify instances where monies in the Sinking Fund bank accounts were incorrectly used. Since receipt of the Extracted Data, we have commenced review of payments made from the Sinking Fund bank accounts to identify instances of incorrect use of Sinking Fund monies.



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

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

#### *Remediation Plan*

- 5.1.1 AHTC is to implement a policy, supported by procedures, for related parties and transactions with related parties to ensure that AHTC complies with s35(c) of the TCA and that its financial statements comply with FRS 24 *Related Party Disclosures*.

#### *Remediation Plan items outstanding as at June 2016 Monthly Report*

- 5.1.2 AHTC is revising its *Related Party Transactions* policy and supporting procedures to:
- 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
  - Tighten certain definitions.

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

#### *Remediation Plan*

- 5.2.1 AHTC is to implement policies and procedures on the calling of quotations and tenders.

#### *Remediation Plan items completed since our May 2016 Monthly Report*

- 5.2.2 AHTC has revised its policies and procedures on the calling of quotations<sup>14</sup> and tenders<sup>15</sup> to include:
- Guidelines for the waiver of quotations and tenders; and
  - The requirement to conduct checks on shareholders and directors of potential vendors for potential conflicts of interest.

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

<sup>15</sup> Titled *Tender SOP*.



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*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 5.2.3 AHTC has implemented the policies and procedures in the Remediation Plan for this Audit Point. AHTC's compliance with the policies and procedures in the Remediation Plan will be tested once sufficient data have been generated for testing.

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

*Remediation Plan*

- 5.3.1 AHTC is to implement:
- A policy, supported by procedures, to identify and manage conflicts of interest; and
  - A *Code of Business Conduct*.

*Remediation Plan items completed as described in our previous Monthly Reports*

- 5.3.2 AHTC has updated and implemented its revised *Conflict of Interest Policy*, which extends to AHTC's Town Councillors, management and employees, and supporting procedures to manage conflicts of interest.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 5.3.3 AHTC targets to complete a *Code of Business Conduct* by the end of July 2016.

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

*Remediation Plan*

- 5.4.1 AHTC is to implement a policy, supported by procedures, to govern the approval of payments to related parties.

*Remediation Plan items completed as described in our previous Monthly Reports*

- 5.4.2 The *Conflict of Interest Policy* was revised to include a requirement for AHTC's Town Councillors, management and employees to declare potential conflicts of interest in relation to approvals, including approval of payments, and to recuse themselves from such approvals.



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- 5.4.3 AHTC has implemented a requirement that all payments to FMSS, regardless of amount, must be co-signed by AHTC's Chairman or Vice-Chairman, who hold no interests in FMSS.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 5.4.4 AHTC has implemented the policies and procedures in the Remediation Plan for this Audit Point. We are reviewing payments made to related parties.

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

*Remediation Plan*

- 5.5.1 AHTC is to implement a contract management policy, supported by procedures, to manage the awarding and execution of services provided by external parties.

*Remediation Plan items completed since our previous Monthly Reports*

- 5.5.2 AHTC has implemented a *Contract Management Policy*.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

- 5.5.3 AHTC has implemented the policies and procedures in the Remediation Plan for this Audit Point. AHTC's compliance with the policies and procedures in the Remediation Plan will be tested once sufficient data have been generated for testing.



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

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

#### *Observations*

##### **6.1.1 As described in our previous Monthly Reports:**

- AHTC informed us that S&CC arrears data<sup>16</sup> can now be automatically generated for reporting to MND in the required format. AHTC resubmitted the past year's (i.e. April 2015 to February 2016) arrears reports to HDB with the March 2016 arrears report.

##### **6.1.2 Since our May 2016 Monthly Report:**

- We have identified the following:
  - The S&CC arrears report is not fully automated. The S&CC arrears data is automatically extracted from the Accounting System but the monthly collectible data is manually extracted from various reports.<sup>17</sup>
  - Detailed user acceptance testing was not performed prior to the implementation of the automated extraction of S&CC arrears data.
  - The S&CC arrears report for March 2016 did not reconcile with the accounts receivable sub-ledger.
  - The April 2016 monthly collectible data was incorrectly extracted from a May 2016 report, resulting in an understatement of collectibles of SGD11,400.22 in the reporting to MND for April 2016.
- We have discussed the maintenance of identifiers (i.e. bill codes) with AHTC's IT consultant, who informed us that the incorrect amendments of bill codes were primarily due to incorrect mapping of general ledger account codes to the bill codes. However, he does not have details of how the incorrect mapping occurred (e.g. when it happened, the people involved and the erroneous bill codes themselves). We identified that:
  - There are no policies or procedures governing the maintenance of master data, including the bill codes, in the Accounting System;
  - Changes can be made directly to bill codes without any system requirement for approval;
  - There is no audit trail report to facilitate independent review of changes made to master data; and

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<sup>16</sup> The S&CC arrears data forms part of the S&CC arrears report, which also includes monthly collectible data.

<sup>17</sup> Mass Billing Report, the Master Unit File and the listing of vacant units provided by the National Environment Agency ("NEA") and HDB.



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- AHTC's user access rights' matrix to the Accounting System does not provide the necessary details to facilitate periodic reviews of the appropriateness of access rights granted to users.

*Remediation Plan*

6.1.3 AHTC is to:

- Configure the Accounting System to automatically generate the S&CC arrears data;
- Implement policies, supported by procedures, to govern the maintenance of the master data, including bill codes and user access rights to its Accounting System.

*Remediation Plan items completed as described in our previous Monthly Reports*

6.1.4 AHTC has configured the Accounting System to automatically generate the S&CC arrears data.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

6.1.5 AHTC is to perform detailed user acceptance testing of the automated extraction of S&CC arrears data, which includes reconciliation with the accounts receivable sub-ledger.

6.1.6 AHTC is to implement policies, supported by procedures, to govern the maintenance of master data, including bill codes and user access rights to the Accounting System.



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

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

#### *Observations*

7.1.1 Since our May 2016 Monthly Report, AHTC has:

- Performed the April 2016 bank reconciliation for all six of its bank accounts; and
- Posted accounting entries to remove unrepresented cheques older than six months from AHTC's books.

#### *Remediation Plan*

7.1.2 AHTC is to:

- Perform monthly closing of accounts to facilitate the performance of bank reconciliations;
- Monitor, investigate and address bank reconciling items in a timely manner; and
- Implement a written policy and procedures for bank reconciliations.

#### *Remediation Plan items completed since our May 2016 Monthly Report*

7.1.3 This Audit Point is resolved. AHTC has implemented:

- A process to monitor, investigate and address bank reconciling items; and
- The *Accounting Policy – Period End Closing* and *Period End Closing Checklist*, which include policy and procedures for bank reconciliations, including monitoring, investigating and addressing bank reconciling items in a timely manner, and monthly closing of accounts.

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

7.2.1 As described in our previous Monthly Reports, this Audit Point has been resolved.

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

7.3.1 As described in our previous Monthly Reports, this Audit Point has been resolved.



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

### *Observations*

7.4.1 Since our May 2016 Monthly Report, we have identified instances where the awarding and commencement of services occurred prior to approvals for services being obtained and/or written agreements being executed:

- There was no written agreement, tender, or waiver of tender<sup>18</sup> for ad-hoc IT systems support services provided by its existing vendor;
- AHTC received a quotation, gave approval for waiver of quotation, and gave approval for acceptance of the quotation after the supplier provided an annual software update licence; and
- AHTC signed agreements<sup>19</sup> and approved a waiver of quotation after the commencement of services from another supplier.

### *Remediation Plan*

7.4.2 AHTC is to implement policies, supported by procedures, to govern procurement and payment-related processes.

### *Remediation Plan items completed since our previous Monthly Reports*

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

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

### *Remediation Plan items outstanding as at June 2016 Monthly Report*

7.4.4 Supporting documents (e.g. invoices and Job Sheets) for payments, including petty cash, are not invalidated to prevent resubmission of duplicate payments. We

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<sup>18</sup> Payments totalling SGD291,069.48, consisting of 14 invoices for Work Orders relating to ad-hoc IT job requirements, applications enhancement and maintenance, ranging from SGD778 to SGD45,900, issued from January 2014 to May 2015, were made, exceeding the threshold for tenders of SGD70,000.

<sup>19</sup> One agreement for each Town Council Division.



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have discussed and agreed with AHTC that it will enhance its payments-related policies and procedures to include the requirement to invalidate supporting documents upon payment.



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

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

#### *Observations*

#### **8.1.1 Since our May 2016 Monthly Report:**

- AHTC has drafted a *Backup and Data Retention Policy*. The policy does not include:
  - Periodic restoration testing of back-up data; and
  - Procedures to support the policy.
- AHTC has drafted an *Information and Data Security Policy*. The policy does not include:
  - Procedures to support the policy;
  - Protocols for information classification; and
  - Protocols for incident escalation, investigation and reporting.

#### *Remediation Plan*

#### **8.1.2 AHTC is to implement processes, supported by policies and procedures, for:**

- Handing and taking-over of duties and records;
- Arrangements for data back-up; and
- Data management and records retention.

#### *Remediation Plan items completed as described in our previous Monthly Reports*

#### **8.1.3 AHTC has introduced a staff exit clearance form (at departmental level), in addition to its existing staff onboarding and exit clearance checklists.**

#### *Remediation Plan items outstanding as at June 2016 Monthly Report*

#### **8.1.4 AHTC is to implement policies and procedures for:**

- Business continuity management, supported by a business continuity plan and disaster recovery plan; and
- Data back-up.



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- 8.1.5 AHTC is targeting to progressively implement processes, supported by policies and procedures, for handing over and safeguarding accounting records by July 2016.

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

### *Observations*

8.2.1 Since our May 2016 Monthly Report, we identified that:

- Certain monthly routine lift maintenance services were undertaken by suppliers:
  - Either with delays<sup>20</sup> in, or without<sup>21</sup>, signing of, Articles of Agreement; and/or
  - Without Work Orders.<sup>22</sup>
- Other services undertaken by suppliers were:
  - Subject to delays in issuance of certain Written Instructions and Work Orders<sup>23</sup>, resulting in delayed recording of expenses and processing of payments;
  - Subject to delays<sup>24</sup> in issuing certain Work Orders, relating to confirmation received from suppliers on completion of works and/or services rendered ("Job Sheet")<sup>25</sup>; and
  - Without Work Orders<sup>26</sup>.
- AHTC maintained and communicated a *Works Instruction & Work Order Approval Matrix* on 4 March 2016 to Estate Divisions. The *Works Instruction & Work Order Approval Matrix* is not consistent with AHTC's *Delegation of Authority Matrix*<sup>27</sup> and allows the following personnel to approve small purchases up to SGD1,000:
  - Property Officers have issued Written Instructions up to SGD300 without approval; and

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<sup>20</sup> For example, with three suppliers for a total of 545 lifts.

<sup>21</sup> For example, with one supplier for one lift as at 14 June 2016.

<sup>22</sup> For example, with one supplier for 64 lifts totalling SGD SGD75,923.46; the expenses for which have yet to be accrued in FYE 2016 as at 14 June 2016.

<sup>23</sup> For example, 635 Written Instructions, totalling SGD199,101.17 for works performed in FYE 2015 were created in FYE 2016, and 125 Written Instructions, totalling SGD36,298.33 for work performed in FYE 2016 were created in FYE 2017.

<sup>24</sup> Ranges from 17 to 119 days from the date of receipt of Job Sheets.

<sup>25</sup> For example, delay observed in 188 Job Sheets received from May 2015 to October 2015, totalling SGD140,316.92.

<sup>26</sup> For example, 125 Work Orders totalling SGD106,011.14 for work performed in FYE 2016 as at 19 May 2016.

<sup>27</sup> Approved by the Chairman.



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- Property Managers have approved Written Instructions for expenditure between SGD300 and SGD1,000.
- We selected 20 samples Written Instructions for testing and observed:
  - Two instances<sup>28</sup> where the Written Instructions, approved prior to the establishment of the *Works Instruction & Work Order Approval Matrix*, were not approved in accordance with the Delegation of Authority; and
  - One instance where the Written Instruction<sup>29</sup> issued to the supplier was approved after work completion.

***Remediation Plan***

**8.2.2 AHTC is to implement:**

- An accounting manual covering accounting policies and procedures, in order to institutionalize practices and processes, in July 2016; and
- A budget monitoring process.

***Remediation Plan items completed since our May 2016 Monthly Report***

**8.2.3 AHTC has implemented a budget monitoring process:**

- AHTC's Finance Department has started to perform monthly variance analyses on AHTC's budget and actual expenditure for the Operating Fund;
- The terms of reference for the Finance & Investment Committee have been updated to include review of variance analyses of budget and actual expenditure; and
- AHTC has included the requirement to perform budget variance analyses in its *Accounting Policy – Period End Closing*.

**8.2.4 AHTC revised its *Delegation of Authority Matrix*, effective 15 June 2016, to include its Property Officers and Property Manager as approving authorities for small purchases.**

***Remediation Plan items outstanding as at June 2016 Monthly Report***

**8.2.5 Refer to section 3.2 for further information on the implementation of the accounting manual.**

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<sup>28</sup> Written Instructions approved on 20 April 2015 and 2 March 2016, for lift parts replacement works of SGD9,169.90; each, was approved by the Assistant Lift Manager/ Lift Manager.

<sup>29</sup> For a flushing manhole, at a cost of SGD504.51, which was approved by the Property Manager

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

#### *Observations*

8.3.1 Since our May 2016 Monthly Report, we have been provided with transaction listings for the 14 temporary clearing accounts:

- Eight of the temporary clearing accounts contain transactions prior to FYE 2012. AHTC is investigating the nature of these transactions.
- One temporary clearing account is used to record transactions amongst the divisions in Aljunied-Hougang Group Representation Constituency ("GRC") and has a net balance of zero.
- Five of the temporary clearing accounts are used by AHTC in its daily operations and are as follows:
  - *SC Void Unit (NEA) - Cl*: an account to record S&CC amounts due from NEA for void hawkker units in Aljunied-Hougang GRC;
  - *SC Void Unit (HDB) - Cl*: an account to record S&CC amounts due from HDB for void residential units in Aljunied-Hougang GRC;
  - *Temp Clearing*: an account to record receipts and payments that could not be allocated to the relevant receivables and payables accounts. With effect from 1 April 2016, AHTC records such transactions as reconciling items in its bank reconciliations;
  - *SCC Adj - Clearing*: an account to record refunds payable to residents in Aljunied-Hougang GRC for overpayment of S&CC; and
  - *SC Rebate Clearing*: an account to record S&CC rebates for eligible Singaporeans and refunds receivable from MND for those rebates.

8.3.2 There were 1,067,018 number of transactions in the 14 temporary clearing accounts as at 31 March 2016, totaling SGD10,587,840. A summary of these transactions is below:

FYE	Number of transactions	Percentage of transactions	Balance (SGD)
Prior to 2011	402,444	38	57,702
2011 to 2014	255,259	24	4,465,636
2015	199,309	19	(3,643,063)
2016	210,006	19	9,707,565
<b>Total</b>	<b>1,067,018</b>	<b>100</b>	<b>10,587,840<sup>30</sup></b>

<sup>30</sup> This includes SGD10 million in sinking fund monies transferred to Pasir Ris-Punggol Town Council on 30 November 2015.

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8.3.3 In addition to the 14 temporary clearing accounts, AHTC uses three sundry debtors accounts and one sundry creditors account to, among other things, record unallocated receipts and payments. There were 2,318 line items in these accounts as at 31 March 2016, totalling SGD60,865.

8.3.4 Variances were identified between the balances in the general ledger and the aggregated balances in the sub-ledgers for the following accounts as at 31 March 2016:

<b>Account</b>	<b>General ledger (SGD)</b>	<b>Aggregate balances in the sub-ledgers (SGD)</b>	<b>Variance (SGD)</b>
Trade and other receivables (excluding deposits and prepayments)	3,345,086	4,664,868	(1,319,782)
Trade and other payables (excluding accrued expenses)	(8,111,922)	(9,187,372)	1,075,450

*Remediation Plan*

8.3.5 AHTC is to:

- Implement a reconciliation process between balances in sub-ledgers and general ledger; and
- Clear items in the temporary clearing accounts.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

8.3.6 Since our May 2016 Monthly Report:

- One of the new accountants recruited by AHTC has been assigned to investigate outstanding items in *SC Void Unit (NEA) - CI* account. AHTC has requested information from NEA for the period from July 2011 to March 2014 for the purposes of this exercise.
- AHTC's Finance Department has commenced investigation of outstanding items in the *SC Void Unit (HDB) - CI* account. AHTC has requested information from HDB for the period from July 2011 to December 2013 to assist with this exercise.
- AHTC has commenced identifying the details and nature of unallocated receipts and payments in the temporary clearing accounts.



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## **8.4 Reconciliation of direct and indirect tax**

### *Remediation Plan*

#### **8.4.1 AHTC is to:**

- Review its past GST returns and voluntarily disclose any errors to IRAS under the Voluntary Disclosure Programme; and
- Transfer GST input tax claimed on Sinking Fund expenditure to the Sinking Fund bank account.

### *Remediation Plan items outstanding as at June 2016 Monthly Report*

**8.4.2** AHTC is to complete the self-review of past GST returns and disclosure of errors to IRAS under the Voluntary Disclosure Programme.

**8.4.3** AHTC is to compute GST input tax claimed on Sinking Fund expenditure that should be transferred to the Sinking Fund bank account.

## **8.5 Opening balances**

### *Observations*

#### **8.5.1 Since our May 2016 Monthly Report:**

- We have identified that of the 13 opening/brought forward balances identified by Foo Kon Tan Grant Thornton LLP:
  - Ten require adjusting entries to correct entries incorrectly posted to resolve the balances;
  - Two relate to related party transactions and subsequent event disclosures in the financial statements; and
  - The remaining opening balance pertains to the FYE 2012 financial statements, which continued to be subject to a disclaimer of opinion in the FYE 2015 financial statements.
- AHTC informed us that it has posted adjusting entries to correct the opening/brought-forward balances identified by Audit Alliance LLP, except for determining whether additional allowance for impairment is required for S&CC receivables.
- We have identified that as at 31 March 2016, AHTC has S&CC receivables of SGD3,466,218. AHTC provides for impairment of S&CC receivables when the S&CC are more than seven years in arrears. AHTC is assessing whether an additional allowance for impairment is required for those balances that remain outstanding.



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*Remediation Plan*

8.5.2 AHTC is to resolve the opening balances.

*Remediation Plan items outstanding as at June 2016 Monthly Report*

8.5.3 In May 2016, AHTC provided us with a detailed worksheet listing 95 adjusting entries which corrected some of the opening/brought-forward balances. We have requested the supporting documents for these entries.