



Aljunied- Hougang Town Council

Report on Progress

KPMG LLP

20 July 2016

This report contains 43 pages



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1 Our engagement

1.1 This report

- 1.1.1 The background and scope of our work is described in the first of our monthly reports on progress (our "Reports") on 15 April 2016 and carried out in accordance with the Order of the Court (the "Court Order") in *Attorney-General v Aljunied-Hougang-Punggol East Town Council*¹, Civil Appeal No. 114 of 2015 (the "Proceedings").
- 1.1.2 Our work has two primary components:
- Identifying all outstanding non-compliance with s35(c) of the Town Councils Act (Cap. 329A) ("TCA") identified by the Auditor-General's Office of Singapore ("AGO") and the statutory auditors for the financial years ended 31 March ("FYE"s) 2014 and 2015 (the 17 "Audit Points", comprising 115 control failures identified by the AGO and the statutory auditors), advising on remediation steps required for such non-compliance, and reporting each month on the progress made; and
 - Identifying any improper payments made between 27 May 2011 and 27 November 2015 ("Improper Payments") that ought to be recovered and reporting our findings by 31 August 2016.²
- 1.1.3 In our first three Reports, we reported on actions taken to address the Audit Points, and identified a further 70 control failures³ (which AHTC has requested us to list in the interests of transparency and accountability, and can be found at Appendix D, with an indication of their current status) and four root causes of those Control Failures.
- 1.1.4 With this fourth Report, we consider our recommendations on the steps that must be taken to remedy the Audit Points to be complete, and set out our conclusions in this area of our work, including our remaining recommendations for actions to be taken by Aljunied-Hougang Town Council ("AHTC").
- 1.1.5 We have a continuing obligation to report on further progress until all required actions have been taken. In our fifth Report, we will provide an update, if any, on the Remediation Plans⁴. In our sixth Report, we will report on our work on identifying Improper Payments.

¹ "AHPETC".

² Or such other date as may be agreed with AHTC (with the consent of HDB), or as agreed by the Court.

³ Including those control failures identified in this Report and referred to collectively with the control failures comprising the Audit Points as the "Control Failures".

⁴ The steps that AHTC is taking to remedy Audit Points that are unresolved (the "Unresolved Audit Points") as at the date of the 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.



2 Conclusions on our review of Control Failures

2.1 Summary of conclusions on Control Failures

- 2.1.1 AHTC's last four external audits were completed unsatisfactorily with disclaimers of opinion in the audit reports and 115 Control Failures identified by the AGO and statutory auditors. In addition, we have identified a further 70 Control Failures.
- 2.1.2 The Control Failures are pervasive, cutting across the key areas of governance, financial control, financial reporting, procurement and records management over the course of five years. Progress remedying the Control Failures has been slow. We estimate that to remediate them completely will take at least 18 months; AHTC has informed us that it aims to substantially complete the Remediation Plans in 15 months.
- 2.1.3 We are of the view that there is an issue larger than the sum of individual lapses at AHTC. Auditors consider not just individual control failures but also the overall control environment. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- 2.1.4 As described in this section, these Control Failures collectively constitute a failure in the control environment, the remediation of which will require that the Town Councillors engage to reset the tone at the top of AHTC, emphasizing competence and accountability.

2.2 AHTC's internal control

- 2.2.1 Internal Control⁵ in an entity is implemented and maintained to address business risks that threaten the achievement of any of the entity's objectives⁶; internal controls are important because they are part of management's arrangements to ensure that its objectives are met and its strategies are effective. Each of the Control Failures undermines AHTC's efforts to attain its objective to provide the highest level service standards to its residents⁷.
- 2.2.2 Auditors consider not just individual internal controls but also the overall control environment⁸. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- 2.2.3 AHTC's last four external audits were completed unsatisfactorily with disclaimers of opinion in the audit reports and 115 Control Failures were identified by the AGO and statutory auditors. In addition, we have identified a further 70 Control Failures.

⁵ Singapore Standard on Auditing 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* ("SSA 315", which is identical to the parallel international standard IFAC ISA 315) paragraph A49 *et seq.*

⁶ SSA 315 paragraph A51.

⁷ www.ahtc.sg/about-the-town-council/

⁸ SSA 315 paragraph A58(a) and A76 *et seq.*

The Control Failures are pervasive, cutting across the key areas of governance, financial control, financial reporting, procurement and records management over the course of five years. We are of the view that there is an issue larger than the sum of individual lapses and that these Control Failures point to a failure in AHTC's control environment.

2.3 Control environment

2.3.1 The control environment of an organization includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment sets the tone of an organization, influencing the control consciousness of its people.

2.3.2 We evaluated AHTC's control environment considering the following elements enunciated in SSA 315⁹:

- a) Communication and enforcement of integrity and ethical values;
- b) Commitment to competence;
- c) Participation by those charged with governance (in this context, the Town Councillors);
- d) Management's philosophy and operating style;
- e) Organizational structure;
- f) Assignment of authority and responsibility; and
- g) Human resource policies and practices.

2.3.3 It is our assessment that AHTC's control environment failed in respect of six elements, and we set out the basis of this conclusion in the following sections.

2.4 Communication and enforcement of integrity and ethical values

2.4.1 The communication and enforcement of integrity and ethical values are essential elements that influence the effectiveness of the design, administration and monitoring of controls.

2.4.2 AHTC's *Code of Business Conduct* is currently in draft¹⁰. Until 8 July 2016, AHTC did not have a code of conduct or related documentation setting out AHTC's expectations of its staff. A clear statement of organizational values and delineation of ethical and unethical behavior is of great importance, especially in public sector organizations, to set the tone and build a foundation for a good control environment.

⁹ SSA 315 paragraph A77.

¹⁰ See paragraph B.3.5 *et seq* of this Report.



- 2.4.3 AHTC's Work Order System¹¹ has a control to prevent work that exceeds the gazetted budget for the year from being processed. This was bypassed on several occasions, mainly for lift-related work, so that expenses that fell outside of the relevant sub-head of the gazetted budget could be processed.¹² While Town Councillors did not appear to have had knowledge of this circumvention, they must clearly communicate that a culture of compliance with controls designed to protect AHTC is required and bypassing of such controls is unacceptable.

2.5 Commitment to competence

- 2.5.1 Commitment to competence relates to matters such as management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.
- 2.5.2 AHTC has been unable to detect multiple errors in the financial data on which its operations and reporting rely. The Service and Conservancy Charges ("S&CC") arrears report remains incorrectly generated, resulting in an over-declaration of S&CC arrears in the March 2016 report of SGD273,535.06.¹³ The reconfiguration of the accounting platform used by AHTC to record and account for its transactions (the "Accounting System") for the S&CC arrears report was done in May 2016 without detailed user acceptance testing or creation of program change documentation. These are standard quality checks on IT program changes, omitting them jeopardizes the accuracy of the Accounting System.
- 2.5.3 Additionally, while we did not directly review AHTC's Goods & Service Tax ("GST") returns, we identified fundamental errors in the approach to preparing AHTC's GST returns.¹⁴
- 2.5.4 Monthly closing, checking and reconciliation procedures, and clearing of temporary accounts, standard practice in any sizeable entity, were not carried out¹⁵ until after we commenced our assignment. As a result, detailed investigation of many years of accounting records is required to ascertain the accuracy of AHTC's financial data such as S&CC receivables, payables and cash at bank.
- 2.5.5 Established processes requiring the review of invoices from vendors, to check if they were correctly issued, did not function consistently¹⁶. We found invoices from vendors being recorded twice, resulting in overstatement of liabilities.¹⁷ We also identified a duplicate transfer of SGD157,141.01 to a Sinking Fund bank account¹⁸.

¹¹ AHTC's system to log work orders.

¹² See paragraph 8.2.3 of our May 2016 Report.

¹³ See paragraph B.4.2 of this Report.

¹⁴ See paragraph 8.5.3 of our April 2016 Report.

¹⁵ See paragraph 3.3.2 of our April 2016 Report and section 8.3 of our June 2016 Report.

¹⁶ See section 3 of this Report.

¹⁷ See paragraph 3.1.10 of this Report.

¹⁸ See paragraph 4.1.2 of our May 2016 Report.

2.6 Participation by the Town Councillors

- 2.6.1 This refers to the roles of those charged with the governance of AHTC.
- 2.6.2 The extent of their involvement and the information Town Councillors receive, and their scrutiny of AHTC's activities, is an important aspect of this. AHTC's Finance & Investment Committee met¹⁹ three times in 2014, five times in 2015 and twice during the six months to 30 June 2016. AHTC informed the AGO²⁰ that it decided to dedicate its finance resources to the AGO audit and the subsequent statutory audit and that the Finance & Investment Committee meetings for six months from May 2014 were deferred. AHTC's Audit Committee, which was formally constituted in August 2013, met after the AGO audit was completed²¹ once in 2014, once in 2015 and three times²² during the six months to June 2016.
- 2.6.3 Taking account of the four years of qualified audit reports by the statutory auditors and the scale of the Audit Points identified by the AGO, far from the Finance & Investment Committee and Audit Committee meeting less often, they should have been meeting more frequently to address these issues. There should have been a significant step up in the work of these committees, and the Town Council itself, to set the tone and provide guidance to finance executives on remediation efforts.
- 2.6.4 AHTC informs us that, notwithstanding that there were fewer meetings, there were various matters during this period which received significant attention, requiring prioritization of efforts. In particular AHTC cites: the appointment of an accounting firm to help with internal control and the statutory auditors' disclaimers; the Proceedings themselves between March 2015 and November 2015; a General Election in August/September 2015, during which time an Acting Town Council Chairman was appointed; and the transition to direct management when their managing agent contract expired on 14 July 2015, resulting in the departure of the top three Finance Department staff.

2.7 Management's philosophy and operating style

- 2.7.1 Management's philosophy and operating style refers to characteristics such as management's attitudes to how resources are organized, and the actions they take to ensure alignment of AHTC's activities with its objectives.
- 2.7.2 AHTC has 18 temporary clearing accounts²³ containing a total of more than one million transactions at a value of over SGD648,000. Transactions should only be recorded in such accounts on a short-term basis. Prior to our review, investigation and clearance of these items, some which predate 2011, was not done.

¹⁹ The Finance & Investment Committee was supposed to meet monthly apart from those months where the Town Council met, which was quarterly. With effect from the last quarter of 2015, the frequency of the Finance & Investment Committee meetings was changed to quarterly.

²⁰ See the AGO's Report at paragraph 1.18 of Appendix B: Report (Part II – AGO).

²¹ See the AGO's Report at paragraph 1.4 of Appendix A: Report (Part I – AGO).

²² However, there are no minutes of the Audit Committee meeting held on 18 February 2016.

²³ See paragraphs B.6.9 *et seq.* of this Report.



- 2.7.3 The maintenance of and changes made to master data, including bill codes, in the Accounting System is not subject to monitoring and approval²⁴. This is crucial to prevent unauthorized changes which might affect the integrity of the data in the Accounting System.
- 2.7.4 We observed extensive use of manual journal entries that bypassed accounts payable used to record payments totalling SGD60,660,927 to third parties²⁵ (the "Direct Payment Journal Entries"). This highly irregular shortcut makes effective oversight of payments by the Finance Department practically impossible. Such large-scale use of this practice raises questions about the management of AHTC's finance function.
- 2.7.5 In addition, accounts payable balances were not regularly reviewed²⁶. Notwithstanding that there were multiple payables over three years old apparent in the accounts payable, investigation and clearance of these items did not occur prior to our review. The accounts payable contain duplicate entries, incomplete processing, mismatched payments, and other inaccuracies.
- 2.7.6 Each of the above Control Failures can conceal duplicate or fraudulent payments.
- 2.7.7 The publication by gazette of a town council's budget is an important component of its accountability to its stakeholders. Because of the shortcomings in the recording of payables, budget tracking and financial reporting were inaccurate, with recording of spending erroneously deferred to a later period²⁷.

2.8 Assignment of authority and responsibility

- 2.8.1 Assignment of authority and responsibility relates to matters such as how authority and responsibility for operating activities are assigned.
- 2.8.2 The General Manager approved the proposed AHTC Town Councillors' and committees' terms of reference, which is a document describing the roles and responsibilities of Town Councillors and the Town Councillors' appointed committees²⁸. We reminded AHTC that the terms of reference have to be approved by the Town Council itself.
- 2.8.3 Written Instructions²⁹ were issued to vendors by staff outside their authority under AHTC's *Delegation of Authority* matrices³⁰. A clear understanding by staff of their authority, with close monitoring by supervisory staff, would have prevented such lapses.

²⁴ See paragraph 6.1.2 of our June 2016 Report.

²⁵ See the breakdown at section 3.1 of this Report.

²⁶ See paragraph 3.1.10 of this Report.

²⁷ See paragraph 8.2.3 of our May 2016 Report.

²⁸ See paragraph 3.2.6 of our April 2016 Report.

²⁹ Instructions issued to vendors for *ad hoc* works.

³⁰ See paragraph 8.2.1 of our June 2016 Report.

2.9 Human resource policies and practices

- 2.9.1 Human resource policies and practices relate to recruitment, orientation, training, evaluation, counselling, promotion, compensation, and remedial actions.
- 2.9.2 We reported in our April 2016 Report³¹ that AHTC has no finance manager and, of the 15 new Finance Department staff hired since July 2015, four had resigned by then. Since then, another of AHTC's accountants has resigned on short notice. AHTC informs us that, since early 2015, it has shortlisted and interviewed potential finance manager candidates but without success; currently two deputy finance managers head the Finance Department.
- 2.9.3 AHTC did not have written human resource policies or policies for handing-over of duties and records. After the commencement of our review, a staff exit clearance form was introduced on 1 April 2016³², and a draft *Exit Management Policy* on 30 June 2016.

2.10 Conclusion and recommendations

- 2.10.1 The TCA governs town council management and operations with a light touch and elected Town Councillors are ultimately accountable to residents through the parliamentary election process. We understand that this was the intention of Parliament, to allow town councils the ability to make their own decisions and better meet local needs. Given this light touch, the right tone at the top is all the more important.
- 2.10.2 Even if all of the Control Failures are individually remedied, compliance with the TCA will not be sustainable unless Town Councillors and senior management set the right tone at the top, define accountability for lapses, and engage suitable vendors and employees.
- 2.10.3 In dealing with AHTC representatives, we acknowledge that AHTC representatives have been receptive to our recommendations, such as addressing GST errors by undertaking a self-review of past GST returns and agreeing to voluntarily disclose errors to the Inland Revenue Authority of Singapore ("IRAS") under the Voluntary Disclosure Programme and the monitoring of budgets and accruals.
- 2.10.4 It appeared to us, though, that parts of management see the Control Failures as requiring short-term fixes and historical explanation. Approaching control failures narrowly from a perspective of fixing historical issues as they are identified can undermine compliance by failing to address shortfalls in the present control environment more generally.
- 2.10.5 The prevalence of Control Failures and root causes relating to financial management, accounting practices and the Accounting System indicate that AHTC's Finance Department has not been adequately resourced or overseen. The finance manager position has been vacant since 15 July 2015; implementation of the Remediation Plans relies heavily upon leadership of the finance function. Even

³¹ At paragraph 3.4.1 *et seq* of our April 2016 Report.

³² See paragraph 8.2.4 of our April 2016 Report.



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with such leadership, the Finance Department cannot oversee itself. Town Councillors have the clear responsibility to ensure that oversight of the finance functions is effective, that the head of department is able to deliver, and is supported with the right resources and tools. AHTC committees' duty of oversight of AHTC's financial management must be taken seriously and significantly increased attention paid to AHTC's finance function.

- 2.10.6 The Control Failures in AHTC are pervasive, cutting across the key areas of governance, financial control, financial reporting, procurement and records management over the course of five years. Progress remedying the Control Failures has been slow. Assuming diligence and effective management of concurrent work streams, we estimate that to remediate them completely will take at least 18 months; AHTC has informed us that it aims to complete the Remediation Plans in 15 months, when the replacement Accounting System is expected to be in operation.³³
- 2.10.7 AHTC aims to establish a formalized governance and internal control framework by the end of July 2016, as part of its response to the fourth root cause we identified, weaknesses in its governance framework and policy management. While this is a necessary step, a new governance framework document cannot by itself promote improvement unless AHTC's Town Councillors and senior management adopt the right tone at the top, leading by example to demonstrate their expectations and provide clear guidance to AHTC management and staff.

³³ Of the major tasks facing AHTC, we estimate it will take approximately 12 months for the 18 temporary clearing accounts containing a total of more than one million transactions, six months for implementation and operationalization of AHTC's new policies and procedures, 18 months for implementation of a new Accounting System, six months for review and rectification of AHTC's GST returns, four months for balance sheet substantiation, and three months for investigation of variances observed between AHTC and our calculation of balances attributed to the Sinking Fund account.



3 Observations from controls testing on accounts payable

3.1 Observations from review of controls on accounts payable

3.1.1 We have reviewed AHTC's accounting practices in a number of areas relating to payments and payables recorded in AHTC's Accounting System.

3.1.2 We also identified some discrepancies in charges by vendors and AHTC's managing agent in the period covered by our work. AHTC is following up on the discrepancies we identified, on which we will report in our fifth Report.

Use of Direct Payment Journal Entries

3.1.3 We identified 48,519 Direct Payment Journal Entries used to record payments totalling SGD60,660,927 between 27 May 2011 and 27 November 2015.³⁴ The unwarranted and extensive use of this shortcut to avoid using AHTC's accounts payable module makes effective oversight of third party payments by the Finance Department practically impossible. Consequently, it is easier for duplicate payments or fictitious payments to be made without being detected.

Payment types	Amount (SGD)	Number of transactions
Repair and maintenance	(1,942,161)	84
Upgrades	(3,130,329)	12
Conservancy	(2,610,222)	75
PUB utilities	(45,856,135)	47,345
Managing agent and EMSU	(2,887,894)	20
Rental	(1,262,509)	152
Equipment	(362,188)	27
Others	(2,609,490)	804
Total³⁵	(60,660,927)	48,519

3.1.4 These record a credit to cash at bank (i.e. a reduction in funds in AHTC's bank accounts used to pay the third party) and a debit to expense (i.e. an increase in the expenses incurred by AHTC). This is a highly irregular way of recording these

³⁴ SGD25,475,314 in FYE 2012, SGD11,600,024 in FYE 2013, SGD13,718,327 in FYE 2014, SGD7,780,779 in FYE 2015, and SGD2,086,483 in FYE 2016.

³⁵ Compiled based on text description in the journal entry from the Extracted Data. We have excluded GST and Salary & Allowance amounting to SGD1,005,451 from this table.



payments, and indicates a lack of accountability in applying basic financial control principles.

- 3.1.5 Making payments via manual journal entry avoids the payments being entered into accounts payable. An accounts payable system keeps running records of balances with third parties and allows financial functions to review the history of payments and reconcile such balances. In addition, it contains additional information about vendors to facilitate checks on payments and their recipients.
- 3.1.6 AHTC should strictly require the use of its accounts payable module for payments to vendors and prohibit the abuse of journal entries to circumvent financial controls.

Use of “dummy” codes

- 3.1.7 One of AHTC’s procurement policies allows the use of a “dummy” vendor code (“Supplier (One Time)”), for refunds of tender deposits and for other purposes. As at 30 June 2016, the total value of transactions using this dummy code since its creation in 2015 was SGD271,598.20.
- 3.1.8 Payments initiated through dummy codes would not necessarily update payee records in the Accounting System, making effective oversight of third party payments by the Finance Department much more difficult. Consequently, it is easier for duplicate payments or fictitious payments to be made without being detected.
- 3.1.9 There is no monitoring mechanism to ensure transactions recorded in this dummy code are indeed *ad hoc* payments to one-time suppliers. AHTC should restrict the use of dummy codes to the appropriate circumstances and have an effective mechanism to approve and track their use.

Oversight and monitoring of accounts payable

- 3.1.10 AHTC’s accounts payable module is not regularly reviewed and may therefore contain inaccuracies, which can be exploited to initiate or conceal fraudulent payments. In the course of reviewing payables outstanding for more than three years, we observed the following:
- A 2013 invoice from another town council claiming reimbursement for subscription fees on cash card dispensers amounting to SGD898.80³⁶ was unpaid and has not been recorded as payable.
 - No investigation had occurred for 48 payables accounts totalling SGD105,809.83:

³⁶ The subscription fees for 20 terminals for the months of May and June 2013, and two terminals for July 2013.



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- Consultancy fees³⁷ from two projects billed in July 2012 with a total value of SGD26,001;
- A net liability to a vendor of SGD20,856.46 for building repair works, which comprises 520 invoices between March and July 2012 totalling SGD68,124.46, and three debit notes totalling SGD47,268 dated February, April and July 2012 (AHTC informed us these relate to liquidated damages);
- Invoices totalling SGD6,824.73, 10 of which AHTC informed us are related to unclaimed renovation deposits and 35 of which are related to refunds to residents and tenants; and
- A 2012 invoice from a vendor amounting to SGD52,127.64 was recorded twice³⁸, overstating the amount payable to the vendor and the related *Conservancy & Cleaning Expense*; because GST was charged by the vendor, input GST of SGD3,410.22 was wrongly claimed twice from IRAS.

3.1.11 AHTC's Finance Department should perform, at minimum, quarterly reviews of accounts payable.

³⁷ Two invoices for "consultancy fee (architectural/C&S/ME/QS)" for the period 1 April 2009 to 31 March 2012, relating to i) external upgrading works; and ii) construction of sheltered stage, covered linkways and staircase. AHTC has made enquiries of the consultant following our identification of the outstanding invoices.

³⁸ Once in the name of the vendor's factoring bank and again in the actual vendor name.



A Appendix: summary of status of the Control Failures

A.1 Summary of status as at July 2016 Report

- A.1.1 In our first three Reports, we reported on Remediation Plans undertaken to address the Audit Points raised by the AGO. We also identified, among other things, a further 70 Control Failures.
- A.1.2 No Audit Points were resolved in the last month. AHTC has taken steps to address certain of the unresolved Audit Points described in Appendix B but insufficient to have brought itself into compliance with s35(c) of the TCA in respect of them. These steps are summarized in this section.
- A.1.3 The magnitude of work AHTC must do to bring its operations into compliance with s35(c) of the TCA is significant; AHTC informs us that it aims to complete the Remediation Plans within 15 months. At the current rate of progress, we estimate that the remediation process will take at least 18 months. For example, to resolve one issue forming only part of the Control Failure described at Appendix B7.4, AHTC needs to review and clear 1,069,366 transactions present in 18 temporary clearing accounts³⁹. In addition, the accountant who had been leading the work on this Control Failure has resigned and left AHTC since our June 2016 Report.
- A.1.4 Since our June 2016 Report, AHTC has provided us with the following:
- On 30 June 2016, a draft *Exit Management Policy*.
 - On 4 July 2016, six draft accounting policies: *Accounts Payable*, *Fixed Assets*, *Cash Handling*, *Petty Cash Management Policy*, *Bank Management Policy*, and *S&CC Billing Policy*.
 - On 7 July 2016, a revised draft *Related Parties Transactions Policy*.
 - On 8 July 2016:
 - A draft *Management and Procedural Manual Policy*;
 - A revised draft *Policy on Sinking Fund⁴⁰ Transfer*; and
 - A draft *Code of Business Conduct*.
 - On 10 July 2016, a draft *AHTC Governance & Internal Control Framework*.
 - On 13 July 2016: a draft *Permission to Use Common Area Billings Policy* and draft *Miscellaneous Billings Policy*.
- A.1.5 Other steps taken by AHTC for its Remediation Plans include:

³⁹ See paragraph 8.3.2 of our June 2016 Report.

⁴⁰ Fund established and maintained by Town Councils for improvements, management and maintenance relating to residential and commercial properties in their towns.



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- Updated the *Accounting Policy - Period End Closing* to include a requirement to perform variance analysis between the actual expenditure and gazetted budget;
- Updated its *Accounts Payable* policy and *Petty Cash Management Policy* to require supporting documents for payments, including petty cash, to be invalidated to prevent resubmission of duplicate payments; and
- Provided the supporting documents for 11 of the 95 adjusting entries to correct the opening/brought-forward balances identified from previous years' financial statements; we have reviewed the 11 adjusting entries and agreed with AHTC that these entries are appropriate.

A.1.6 Additionally, since our June 2016 Report:

- AHTC has configured the Accounting System to generate the S&CC arrears data incorrectly, resulting in an over-declaration of S&CC arrears in the March 2016 report of SGD273,535.06:
 - Units with an S&CC rate of zero or small arrears amounts owing for less than 0.01 months, are reported as being at least 24 months in arrears;
 - The S&CC rate that should be used to compute the S&CC arrears estimate is the rate applicable to each resident in the month for which the S&CC arrears are reported. AHTC applies the rate applicable to each resident at the time of report generation instead. As a result, the S&CC arrears report generated by AHTC will differ from the estimate that would have been generated had the S&CC arrears report been configured to use the reporting month;
 - The S&CC arrears report also includes terminated accounts (for example, former tenants), which should not be included; and
 - Proper program change documentation was not maintained for the re-configuration.

A.1.7 The status of the Audit Points is summarized in the table below:

Appendix section	Audit Points	Status of Audit Points as at 20 July 2016		
		Resolved ⁴¹	Remedial measures in progress	
			Remedial measures subject to testing ⁴²	Subject to further review/ recommendations by KPMG ⁴³
Management of Sinking Fund				
B.2	Incorrect computation of required transfers to the Sinking Fund, and/or shortfall or delay in transfer to Sinking Fund bank accounts			✓
	Incorrect use of Sinking Fund monies			✓
Governance of related party transactions				
B.3	Incomplete disclosure of transactions with the Related Parties in the financial statements			✓
	Waiver of open tenders and competitive quotations for services provided by the Related Parties		✓	

⁴¹ 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.

⁴² Policies and supporting procedures for the Remediation Plans for this Audit Point have been implemented by AHTC. Further comments are subject to the completion of testing of the effectiveness and implementation of the controls.

⁴³ 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.

Appendix section	Audit Points	Status of Audit Points as at 20 July 2016		
		Resolved ⁴¹	Remedial measures in progress	
			Remedial measures subject to testing ⁴²	Subject to further review/ recommendations by KPMG ⁴³
	Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties			✓
	Weaknesses in the approval of payments to the Related Parties		✓	
	Approvals for services obtained and written agreements executed after the awarding and commencement of services provided by the Related Parties		✓	
Management of S&CC arrears				
B.4	Management of S&CC arrears		✓	✓
Internal controls and procurement				
	Weaknesses in the performance of bank reconciliations	✓		
B.5	Weaknesses in controls over cheques received and valuable items and access to the strong room and safe	✓		

Appendix section	Audit Points	Status of Audit Points as at 20 July 2016		
		Resolved ⁴¹	Remedial measures in progress	
			Remedial measures subject to testing ⁴²	Subject to further review/recommendations by KPMG ⁴³
	Surprise examinations not conducted in accordance with TCFR ⁴⁴	✓		
	Weaknesses in procurement and payment-related processes		✓	
Records management and accounting				
B.6	Weaknesses in the handover process and safeguarding of accounting records			✓
	Untimely recording of lift repairs and upgrading expenses, and absence of guidelines for verification of works and issuance of work orders			✓
	Absence of monitoring of and exercising diligence over collection from/payment to external parties and items in temporary clearing accounts			✓

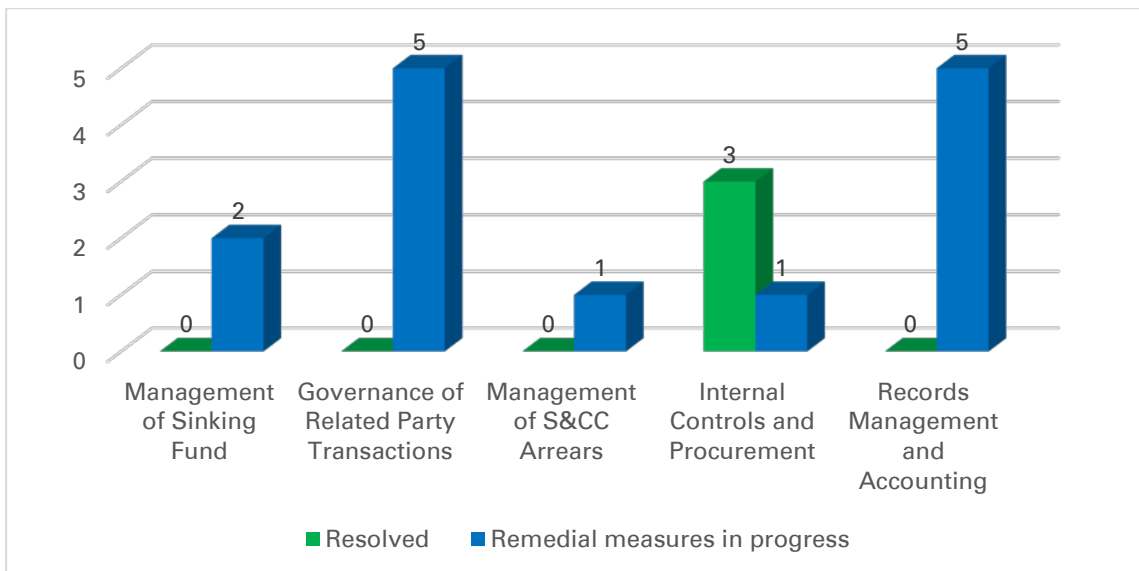
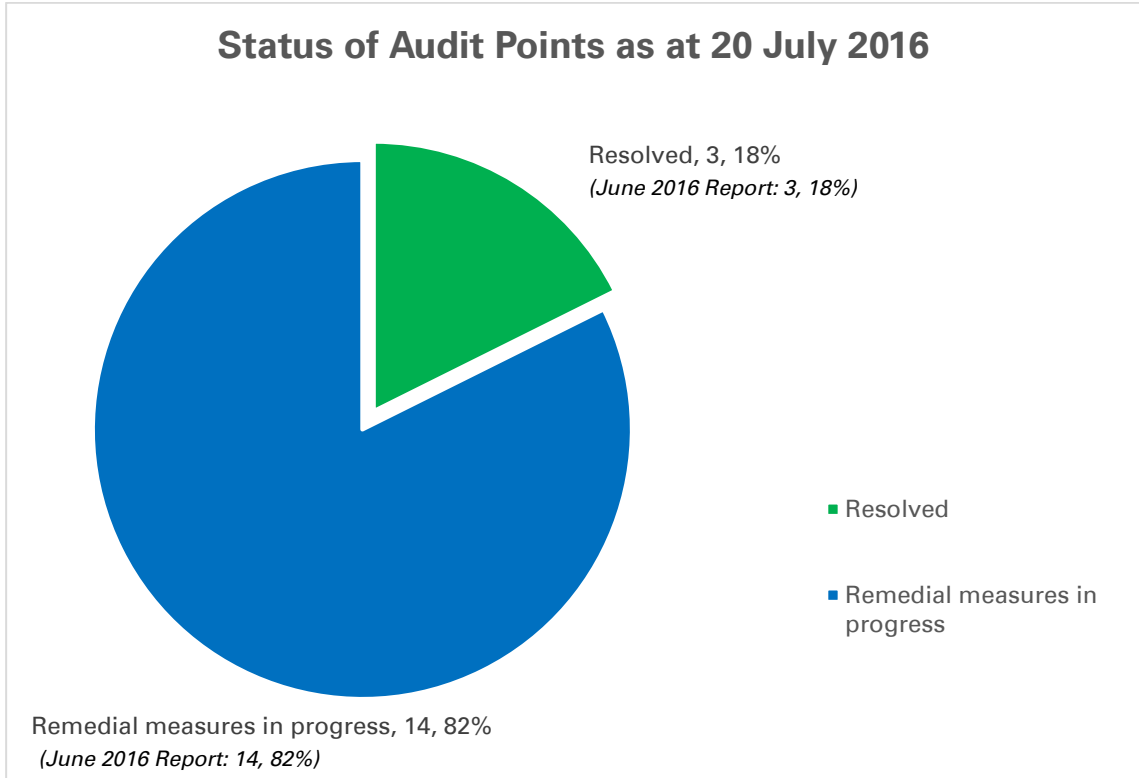
⁴⁴ The Town Councils Financial Rules.



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Appendix section	Audit Points	Status of Audit Points as at 20 July 2016		
		Resolved ⁴¹	Remedial measures in progress	
			Remedial measures subject to testing ⁴²	Subject to further review/ recommendations by KPMG ⁴³
	Reconciliation of direct and indirect tax			✓
	Opening balances			✓

A.1.8 The following diagrams summarize the current remediation status of the Audit Points:





A.2 Use of this Report

- A.2.1 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.
- A.2.2 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 TCA. Our 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 Report.
- A.2.3 Our Reports are strictly for the purpose of assisting and updating AHTC and HDB on the matters highlighted. Our 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 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.

B Appendix: status as at July 2016 Report

B.1 Root causes

AHTC's governance framework and policy management

B.1.1 AHTC's Remediation Plan 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 supporting procedures in areas where enhancement or development is required.

B.1.2 We received a draft *Management and Procedural Manual Policy* from AHTC on 8 July 2016, which is subject to review.

B.1.3 The following Remediation Plan items are not complete as at the July 2016 Report and are targeted for completion by the end of July 2016:

- A governance and internal control framework; and
- The *Management and Procedural Manual Policy* for the promulgation and control of internal policies and procedures.

AHTC's accounting practices

B.1.4 AHTC's Remediation Plan is to:

- Establish clear guidance on roles and responsibilities for Finance Department staff;
- Establish an accounting manual covering accounting policies and supporting procedures in order to institutionalize practices and processes;
- Implement controls for accounting procedures, including controls and maintenance of audit trail for re-opening of locked accounting periods and back-posting of accounting entries; and
- Following completion of KPMG's engagement, engage internal auditors to provide independent assurance that AHTC's risk management, governance and internal control processes are operating effectively.

B.1.5 We reviewed the *Fixed Assets Schedule*, dated 31 March 2016, and the *IT Assets Listing*, dated 28 June 2016, and observed that the *Fixed Assets Schedule* does not match the trial balance as at 31 March 2016:

	Fixed Assets Schedule (SGD)	Trial Balance (SGD)	Variance (SGD)
Cost of Assets			
As at 31 March 2015	3,419,192.88	3,382,598.66	36,594.22
Additions	1,150.00	80,901.70	(79,751.70)
Disposals	-	-	-
As at 31 March 2016	3,420,342.88	3,463,500.36	(43,157.48)
Accumulated Depreciation			
As at 31 March 2015	2,322,523.52	2,320,246.45	2,277.07
Depreciation for the year	519,929.51	360,113.69	159,815.82
As at 31 March 2016	2,842,453.03	2,680,360.14	162,092.89
Net Book Value as at 31 March 2016	577,889.85	783,140.22	(205,250.37)

- B.1.6 The IT assets in the *Fixed Assets Schedule* do not match the *IT Assets Listing* maintained by the IT department⁴⁵. No reconciliation has historically been performed between these two listings.
- B.1.7 The *Fixed Assets Schedule* lacks asset details (e.g. tag number and locations) to facilitate verifying that fixed assets are still in the control of AHTC. We sighted the 29 laptops and 112 desktops listed on the *IT Assets Listing* on 30 June 2016 and 13 July 2016. These laptops and desktops were all present. We observed that a desktop was recorded twice in the *IT Assets Listing*. Also, the location of three desktops, one CPU and one monitor were not updated correctly in the *IT Assets Listing*.
- B.1.8 AHTC does not systematically log and track its physical assets. Without an accurate and updated listing of assets and verification of their physical location, there is a risk that AHTC's assets may be lost either accidentally or fraudulently without being detected. There is an additional risk that the entry of assets into the *Fixed Assets Schedule* may disguise payments made erroneously or fraudulently for the purchase of assets that are not received or are non-existent.
- B.1.9 AHTC has provided us with a draft *Fixed Assets Policy* governing the capitalization, disposal, tagging and sighting of fixed assets on 4 July 2016. AHTC has agreed to include the following, which were not covered by the *Fixed Assets Policy*:

⁴⁵ The differences in date means a comparison of the two listings at the same point in time is not possible.



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- Capital expenditure budgeting;
- Fixed assets tagging;
- Conditions for commencement and cessation of depreciation; and
- Reconciliation and investigation of variance between fixed assets sighting results against accounting records.

B.1.10 Since our June 2016 Report, AHTC has:

- Provided us with six accounting policies on 4 July 2016, which are subject to review.
- Configured the Accounting System to generate the S&CC arrears data incorrectly⁴⁶. Proper program change documentation was not maintained for the re-configuration⁴⁷.

B.1.11 The following Remediation Plan items are not complete as at the July 2016 Report:

- Establish an accounting manual, which AHTC informs us will consist of a collation of six individual policies, covering accounting policies and supporting procedures in order to institutionalize practices and processes, which AHTC targets to complete by the end of July 2016;
- Progressively implement controls and maintain an audit trail for re-opening of locked accounting periods and back-posting of accounting entries, which AHTC targets to complete by the end of 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.

AHTC Finance Department's capability and management personnel retention

B.1.12 AHTC's Remediation Plan is to strengthen the capabilities of the Finance Department.

B.1.13 Since our June 2016 Report, an AHTC accountant, who joined in January 2016 and was our Finance Department liaison, resigned on short notice.

AHTC's Accounting System

B.1.14 AHTC's Remediation Plan is to replace the current Accounting System financial modules and incorporate other improvements⁴⁸.

B.1.15 In the interim, AHTC's Remediation Plan is to implement the following:

⁴⁶ Refer to paragraph B.4.2 for further information on the S&CC arrears data reports.

⁴⁷ Refer to paragraph B.4.2 for further information on the program change documentation.

⁴⁸ AHTC informed us that the new Accounting System is expected to be implemented in 2017.

- 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, the corresponding sub-ledgers; and
- Arrange for the provision of detailed transaction reports to provide the information required for AHTC's Finance Department to review and substantiate management and financial reporting.

B.1.16 AHTC has not completed any of the above Remediation Plan items.

B.2 Management of Sinking Fund

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

B.2.1 AHTC's Remediation Plan for this Audit Point is to:

- Establish a policy and supporting procedures to govern transfers to the Sinking Fund bank accounts; and
- Identify and rectify any erroneous and/or delayed transfers to the Sinking Fund bank accounts.

B.2.2 We received a revised draft *Policy on Sinking Fund Transfer* from AHTC on 8 July 2016, which is subject to review.

B.2.3 The following Remediation Plan items are not complete as at the July 2016 Report:

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

Incorrect use of Sinking Fund monies

B.2.4 AHTC's Remediation Plan for this Audit Point 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.

B.2.5 In June 2016, we observed variances between AHTC's calculations and our calculations where we recomputed: i) apportionment of S&CC grants received from MND between the Sinking Fund and Operating Fund⁴⁹; ii) S&CC receivables for the Sinking Fund; and iii) Sinking Fund expenses paid out from the Operating

⁴⁹ A Town Council fund for short-term routine expenditure, e.g. estate cleaning, repairs and maintenance.

Fund. These variances were under review by AHTC as of the time of writing our June 2016 Report. To date, AHTC has not provided us with explanations of the variances.

- B.2.6 As at the date of this Report, AHTC has yet to complete the process of determining whether there are additional incorrect uses of monies in the Sinking Fund bank accounts.

B.3 Governance of related party transactions

Incomplete disclosure of transactions with the Related Parties in the financial statements

- B.3.1 AHTC's Remediation Plan for this Audit Point is to establish a policy and supporting 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 Financial Reporting Standard 24 *Related Party Disclosures* ("FRS24").

- B.3.2 AHTC provided us with a revised draft *Related Parties Transactions Policy* on 7 July 2016, for which the following are subject to review:

- Procedures for related party transactions to include review, approval, monitoring and tracking to ensure compliance with S35(c) of the TCA and FRS24;
- Adaptions to reflect better the nature of a town council; and
- Tightened definitions.

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

- B.3.3 AHTC has established the policies and supporting 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.

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

- B.3.4 AHTC's Remediation Plan for this Audit Point is to establish the following:
- A policy and supporting procedures to identify and manage conflicts of interest⁵⁰; and
 - A *Code of Business Conduct*.

⁵⁰ AHTC has updated and implemented its revised *Conflicts of Interest Policy*. See paragraph 5.3.2 of our June 2016 Report.



- B.3.5 We received a draft *Code of Business Conduct* from AHTC on 8 July 2016, which is subject to review.
- B.3.6 As at the date of this Report, the *Code of Business Conduct* is not finalized; AHTC targets to finalize it by the end of July 2016.

Weaknesses in the approval of payments to the Related Parties

- B.3.7 AHTC is to establish a policy and supporting procedures to govern the approval of payments to related parties.
- B.3.8 AHTC has established the policies and supporting procedures in the Remediation Plan for this Audit Point. We are reviewing payments made to related parties in order to test the effectiveness of the established policies and supporting procedures.

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

- B.3.9 AHTC has established the policies and supporting 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.

B.4 Management of S&CC arrears

Management of S&CC arrears

- B.4.1 AHTC's Remediation Plan for this Audit Point is to:
- Configure the Accounting System to generate automatically S&CC arrears data;
 - Establish policies and supporting procedures to govern the maintenance of the master data, including bill codes and user access rights to its Accounting System.
- B.4.2 AHTC provided us with a draft *S&CC Billing Policy* on 4 July 2016, which is subject to review. Since our June 2016 Report, we observed that:
- There are the following errors in the S&CC arrears report⁵¹, resulting in an over-declaration of S&CC arrears in the March 2016 report of SGD273,535.06:

⁵¹ AHTC did not re-submit its February 2016 arrears report, as previously advised to us; there was only one submission of the February 2016 report, in April 2016.

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- The system configuration for ageing arrears of small amounts is incorrect. Units with an S&CC rate of zero⁵² or small arrears amounts owing for less than 0.01 months⁵³, are reported as being at least 24 months in arrears.
- The S&CC rate that should be used to compute the S&CC arrears estimate is the rate applicable to each resident in the month for which the S&CC arrears are reported. AHTC applies the rate applicable to each resident at the time of report generation instead. As a result, the S&CC arrears report generated by AHTC will differ from the estimate that would have been generated had the S&CC arrears report been configured to use the reporting month.
- The S&CC arrears report also includes terminated accounts (for example, former tenants), which should not be included⁵⁴.
- Proper program change documentation was not maintained for the re-configuration. AHTC should maintain a program change request covering the justification, automation details, impact analysis and estimated cost for internal approval. On 15 July 2016, AHTC provided us with two documents prepared by AHTC's IT service provider:
 - A job sheet recording a summary of work performed by AHTC's IT service provider; and
 - An unapproved *HDB AR Arrears Report – Program Functional Specification* dated 8 April 2016, but with a revision history including changes made on 30 June and 13 July 2016.
- AHTC does not verify the vacant units in AHTC's unit master file against the vacant units data received from HDB and the National Environment Agency ("NEA"). AHTC should do so to verify the integrity of the data in the unit master file.

B.4.3 The following Remediation Plan items are not complete as at the July 2016 Report:

- Perform detailed user acceptance testing of the automated extraction of S&CC arrears data, which includes reconciliation with the accounts receivable sub-ledger; and
- Establish policies and supporting procedures to govern the maintenance of master data, including bill codes and user access rights to the Accounting System.

⁵² Thirteen terminated accounts with total outstanding S&CC receivables of SGD11,417.40.

⁵³ Thirty-two accounts with total outstanding S&CC receivables of SGD3.61.

⁵⁴ Five hundred and seventy-two terminated accounts with total outstanding S&CC receivables of SGD262,117.66.

B.5 Internal controls and procurement

Weaknesses in the performance of bank reconciliations

B.5.1 As described in our June 2016 Report, this Audit Point has been resolved.

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

B.5.2 As described in our April 2016 Report, this Audit Point has been resolved.

Surprise examinations not conducted in accordance with TCFR

B.5.3 As described in our April 2016 Report, this Audit Point has been resolved.

Weaknesses in procurement and payment-related processes

B.5.4 AHTC's Remediation Plan for this Audit Point is to establish policies and supporting procedures to govern procurement and payment-related processes.

B.5.5 Since our June 2016 Report, AHTC has updated its *Accounts Payable* policy and *Petty Cash Management Policy* to require supporting documents (e.g. invoices and job sheets) for payments, including petty cash, to be invalidated to prevent resubmission of duplicate payments.

B.5.6 AHTC has established the policies and supporting procedures in the Remediation Plan for this Audit Point. Given the results of our testing of transactions, where previously implemented policies and procedures were not followed, we will substantively test AHTC's compliance with the policies and procedures in the Remediation Plan once sufficient data have been generated for testing.

B.6 Records management and accounting

Weaknesses in the handover process and safeguarding of accounting records

B.6.1 AHTC's Remediation Plan for this Audit Point is to establish policies and supporting procedures for:

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

B.6.2 We received a draft *Exit Management Policy* from AHTC on 30 June 2016, which is subject to review.



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B.6.3 Since our June 2016 Report, an AHTC accountant, who joined in January 2016, resigned on short notice. AHTC informs us that an internal handover took place prior to his departure. No formal handover with KPMG took place for his outstanding work as our Finance Department liaison and we were not informed prior to his departure on 24 June 2016. This is disappointing given that a formal handover of his work would have assisted us in tracking the progress of our outstanding enquiries and addressing them to the appropriate person.

B.6.4 The following Remediation Plan items are not complete as at the July 2016 Report:

- Establish policies and supporting procedures for business continuity management, supported by a business continuity plan and disaster recovery plan; and
- Establish policies and supporting procedures for data back-up.

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

B.6.5 AHTC's Remediation Plan for this Audit Point is to:

- Establish an accounting manual covering accounting policies and supporting procedures in order to institutionalize practices and processes, in July 2016; and
- Implement a budget monitoring process.

B.6.6 Since our June 2016 Report, AHTC has updated the *Accounting Policy – Period End Closing* to include a requirement to perform variance analysis between the actual expenditure and gazetted budget.

B.6.7 Refer to section B.1 for further information on the establishment of an accounting manual.

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

B.6.8 AHTC's Remediation Plan for this Audit Point is to:

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

B.6.9 Since our June 2016 Report, of the 18⁵⁵ temporary clearing accounts:

- For nine temporary clearing accounts containing transactions prior to FYE 2012:

⁵⁵ Including three sundry debtors accounts and one sundry creditor account used to, among other things, record unallocated receipts and payments.

- AHTC is not able to provide supporting documents for six of these temporary clearing accounts, which total SGD2,437, and is considering writing-off the balance in these accounts in order to close them.
- We have reviewed the transaction listings of *Inter-Company Clearing* and *JE – Clearing* accounts, which are used by AHTC to allocate transactions to the various districts in the Group Representation Constituency for management reporting purposes. The transactions recorded in these accounts were consistent with the ostensible purpose of the accounts. As at 31 March 2016, the balance in both of these accounts was nil.
- We were provided with the supporting documents for one of eight transactions in *TC Clearing - Pasir Ris*, amounting to SGD10,000,000, relating to the transfer of Sinking Funds to Punggol East. AHTC is investigating the remaining seven transactions, totalling SGD6,567.

B.6.10 For five clearing accounts used by AHTC in its daily operations:

- There are variances in the *SC Rebate Clearing* account between the S&CC rebate credited by AHTC to eligible Singaporeans for the rebate and the amounts reimbursed by MND to AHTC in the *SC Rebate Clearing* account. AHTC has commenced investigation of these variances.
- We have reviewed the supporting documents for 39 of 40,750 transactions in the *SC Void Unit (NEA) – CI* and *SC Void Unit (HDB) – CI* accounts:
 - As a result, SGD3,053 can be cleared as the amounts have been received from NEA.
 - AHTC has commenced investigation of the outstanding items in both clearing accounts by reconciling the void residential and hawker units in their records to the hardcopy statements received previously from HDB and NEA.
- AHTC has investigated and provided adjusting entries and supporting documents for eight out of the 139 transactions in the *Temp Clearing* account. We have reviewed these eight transactions which mainly relate to refunds of deposits placed with AHTC and agreed the proposed adjusting entries.
- AHTC has commenced substantiation of the transactions in the *SCC Adj – Clearing* account as at 31 March 2016.
- AHTC has not started clearing the items in the three Sundry Debtors and one Sundry Creditors accounts used by AHTC to record unallocated receipts and payments.

B.6.11 The following Remediation Plan items are not complete as at the July 2016 Report:

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



Reconciliation of direct and indirect tax

- B.6.12 AHTC's Remediation Plan for this Audit Point is to:
- Review its past GST returns and voluntarily disclose any errors to IRAS under the Voluntary Disclosure Programme; and
 - Transfer input GST claimed on Sinking Fund expenditure to the Sinking Fund bank account.
- B.6.13 Since our June 2016 Report, AHTC has not provided any updates on the review of its past GST returns.
- B.6.14 The following Remediation Plan items are not complete as at the July 2016 Report:
- Completion of the self-review of past GST returns and disclosure of errors to IRAS under the Voluntary Disclosure Programme; and
 - Computation of input GST claimed on Sinking Fund expenditure that should be transferred to the Sinking Fund bank account.

Opening balances

- B.6.15 AHTC's Remediation Plan for this Audit Point is to resolve the opening balances⁵⁶.
- B.6.16 Since our June 2016 Report, AHTC has provided the supporting documents for 11 of the 95 adjusting entries to correct the opening/brought-forward balances identified by Foo Kon Tan Grant Thornton LLP. These 11 entries relate to the reversal of "overstated receivables from various stakeholders." We have reviewed the 11 adjusting entries and agreed with AHTC that these entries are appropriate.

⁵⁶ See paragraph 8.5.3 of our May 2016 Report for the detail of the various balances.

C Glossary of terms

Term	Definition
Accounting System	Accounting platform used by AHTC to record and account for its transactions
AGO	Auditor-General's Office of Singapore
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 following reports: <ul style="list-style-type: none"> - 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 audit report on AHPETC dated 6 February 2015
Control Failures	The 115 control failures identified by the AGO and the statutory auditors plus 70 further control failures identified by KPMG
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
CPF	Central Provident Fund
Direct Payment Journal Entries	Journal entries used to record payments to third parties bypassing the accounts payable
EMSU	Essential Maintenance and Lift Rescue
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.
FRS24	<i>Financial Reporting Standard 24 Related Party Disclosures</i>
FYE	Financial year ended 31 March
GST	Goods & Services Tax
HDB	Housing Development Board
Improper Payments	Improper payments made between 27 May 2011 and 27 November 2015
IRAS	Inland Revenue Authority of Singapore
MND	Ministry of National Development
Report	KPMG's 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
Proceedings	<i>Attorney-General v Aljunied-Hougang-Punggol East Town Council</i> , Civil Appeal No. 114 of 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)



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Term	Definition
TCFR	Town Councils Financial Rules
Unresolved Audit Points	Audit Points that are unresolved as at the date of the 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	AHTC's system to log work orders.
Written Instructions	Instructions issued to vendors for <i>ad hoc</i> works



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D Additional Control Failures identified by KPMG

S/N	Report	Paragraph	Control Failure	Remediation progress	Status
1	April 2016	3.2.4	No policy management process to manage the creation, updating and management of policies and procedures.	AHTC has started preparatory work on the following: - A governance and internal control framework; and - A <i>Master Control</i> policy for the promulgation and control of internal policies and procedures.	Remedial measures in progress
2	April 2016	3.2.5	No governance and internal control framework providing a top-down structure for town council governance, compliance, and risk management.	See S/N 1.	Remedial measures in progress
3	April 2016	3.2.6	Terms of reference for AHTC's committees were recorded in its minutes of meeting, rather than as stand-alone documents. The updated terms of reference documents were approved by the General Manager, rather than the Town Councillors.	The revised terms of reference will be tabled before the Town Council in due course.	Remedial measures in progress
4	April 2016	3.3.2	Monthly closing of the accounts was not performed.	AHTC has: - Implemented its <i>Accounting Policy – Period End Closing</i> and <i>Period End Closing Checklist</i> ; and - Closed its accounts for FYE 2016 and April 2016 month-end.	Remedial measures subject to testing
5	April 2016	3.3.2	Reconciling items in bank reconciliations were not investigated and resolved in a timely fashion.	AHTC has investigated outstanding reconciling items in its bank reconciliations.	Resolved
6	April 2016	3.3.2	Balance sheet substantiation was not performed.	See S/N 4.	Remedial measures in progress
7	April 2016	3.3.2	No governance for re-opening of locked accounting periods and back-posting of accounting entries.	AHTC informed us that it intends to progressively implement controls and maintain an audit trail for re-opening of locked accounting periods and back-posting of accounting entries with completion targeted to be in July 2016.	Remedial measures in progress



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S/N	Report	Paragraph	Control Failure	Remediation progress	Status
8	April 2016	3.3.4	No accounting manual to provide, among other things, guidance on accounting treatments, period-end closing procedures, maintenance of the chart of accounts, and accounting-related controls.	AHTC has drafted six accounting policies on 4 July 2016. AHTC will review KPMG's comments on the drafts.	Remedial measures in progress
9	April 2016	3.3.8	No written roles and responsibilities for the Finance Department and its staff.	We have discussed and agreed with AHTC that it will implement clear guidance on roles and responsibilities for Finance Department staff in July 2016.	Remedial measures in progress
10	April 2016	3.5.2	Inability to generate certain types of accounting reports (e.g. S&CC receivable listing) and certain detailed reports to substantiate some balances in the general ledger.	AHTC has issued a tender to replace the current Accounting System financial modules and incorporate other improvements.	Remedial measures in progress
11	April 2016	3.5.2	Inability to complete certain accounting operations automatically, such as year-end balance rollovers.	AHTC will 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	Remedial measures in progress
12	April 2016	4.3.10	No policies or procedures for Sinking Fund transfers.	AHTC will review KPMG's comments on the draft <i>Policy on Sinking Fund Transfer</i> .	Remedial measures in progress
13	April 2016	5.2.4	No policies or procedures for the disclosure of related parties and transactions with related parties to ensure compliance with s35(c) of the TCA and FRS24.	AHTC will review KPMG's comments on the revised <i>Related Parties Transactions Policy</i> .	Remedial measures in progress
14	April 2016	5.3.4	Standard operating procedures on the calling for quotation and tenders do not include the criteria, documentation, justification, and approval process for waivers of competition and quotations.	Standard operating procedures on the calling for quotation and tenders updated.	Remedial measures subject to testing



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15	April 2016	5.4.5	<i>Conflicts of Interest</i> policy does not extend to Town Councillors nor is covered in the terms of reference found in the meeting minutes for Town Councillors or AHTC's committees.	<i>Conflicts of Interest</i> policy extended to Town Councillors.	Remedial measures subject to testing
16	April 2016	5.4.6	No code of conduct.	AHTC will review KPMG's comments on the revised <i>Code of Business Conduct</i> . AHTC targets to finalize it by the end of July 2016.	Remedial measures in progress
17	April 2016	5.4.7	Management and employees are neither prohibited from seeking or holding external employment nor are they required to declare board positions or directorships in or ownership of other organizations.	<i>Conflicts of Interest</i> policy updated.	Remedial measures subject to testing
18	April 2016	5.5.2	<i>Conflict of Interest</i> policy does not explicitly cover the approval of payments to related parties.	<i>Conflicts of Interest</i> policy updated.	Remedial measures subject to testing
19	April 2016	5.6.2	No written contract management policy.	<i>Contract Management Policy</i> implemented.	Remedial measures subject to testing
20	April 2016	6.2.3	Infrequent review by the Finance & Investment Committee of S&CC arrears reports.	Mode and frequency of review by Finance & Investment Committee being determined.	Pending
21	April 2016	6.2.10	No formal user guide for S&CC reporting.	AHTC is preparing a user guide for the S&CC report.	Remedial measures in progress
22	April 2016	7.2.5	No policies or procedures for bank reconciliations.	See S/N 4. <i>Accounting Policy – Period End Closing</i> and <i>Period End Closing Checklist</i> include procedures for bank reconciliations.	Resolved
23	April 2016	7.5.5	Policies and procedures for procurement and payment-related processes do not include vendor due diligence, evaluation and management, and waiver for competition and tender.	Policy finalized and pending approval by Town Council.	Remedial measures in progress



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24	April 2016	8.2.2	No written policies or procedures for the handing-over of duties and records.	AHTC will review KPMG's comments on the draft <i>Exit Management Policy</i> .	Remedial measures in progress
25	April 2016	8.3.4	Project progress has not been tracked for the purpose of liability accruals (although the spreadsheet on which project progress is tracked can be used for such purpose).	Process for monitoring project progress and accruals being determined.	Pending
26	April 2016	8.4.5	Temporary clearing accounts not investigated and cleared.	AHTC has commenced investigation and clearing of the temporary clearing accounts. AHTC has also engaged two external consultants whose scope includes resolving postings to these clearing accounts.	Remedial measures in progress
27	April 2016	8.5.3	Input GST is claimed on work order accruals (when the work is completed but not billed) ahead of the receipt of invoices from suppliers.	Input GST is now reported upon receipt of invoices from suppliers.	Resolved
28	April 2016	8.5.3	Output GST on S&CC is reported upon billing; therefore, output GST is not reported in AHTC's GST returns on S&CC monies which are received in advance, ahead of billing.	Output GST is now reported upon receipt of S&CC monies.	Remedial measures subject to testing
29	May 2016	3.1.2	No formal IT back-up policy.	AHTC will review KPMG's comments on the revised <i>Back-up and Data Retention Policy</i> .	Remedial measures in progress
30	May 2016	3.1.2	No business continuity management policy, business continuity plan and disaster recovery plan.	Drafting a formal disaster recovery plan in progress.	Remedial measures in progress
31	May 2016	4.1.2	Duplicate transfer to a Sinking Fund bank account.	AHTC has transferred the sum of SGD157,141.01 back to its Operating Fund.	Resolved
32	May 2016	6.1.1	The accounts receivable sub-ledgers as at 31 March 2015 do not match the trial balance for the same period. The numbers, derived from the accounts receivable sub-ledger, used to calculate the S&CC arrears attributable to the Sinking Fund do not match those in the FYE 2015 audited financial statements.	AHTC is performing Balance Sheet substantiation.	Remedial measures in progress



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33	May 2016	7.1.2	Voiding entries pertaining to cancellations of long-outstanding unpresented cheques have not been posted to the general ledger.	AHTC has cleared the voiding entries.	Resolved
34	May 2016	8.2.1	No formal budget monitoring process/variance analysis on budget and actual expenditure.	Requirement to perform budget variance analysis is incorporated in the <i>Accounting Policy – Period End Closing</i> . Finance Department has started to perform variance analyses on AHTC Budget and actual expenditure for the Operating Funds to be prepared monthly. The first variance analysis was presented on 5 May 2016 to the Finance & Investment committee.	Remedial measures subject to testing
35	May 2016	8.2.2	Liabilities for partially completed work are not captured in the Work Order System.	AHTC will consider expanding the use of the Work Order System to include other categories of expenditure to assist in tracking budget utilization.	Remedial measures in progress
36	May 2016	8.2.3	Payment processing can be done directly in the Accounting System without using the Work Order System.	AHTC will ensure that all articles of agreement are signed in a timely fashion. All lift maintenance expenditure to be captured in the Work Order System.	Remedial measures in progress
37	May 2016	8.2.3	Project expenditure exceeded the annual estimates at the "sub-head" level which was not gazetted in the supplementary estimates for FYE 2015, as required by TCFR Rule 10.	Requirement to perform budget variance analysis is incorporated in the <i>Accounting Policy – Period End Closing</i> . AHTC to implement procedure for updating supplementary budget estimates.	Remedial measures in progress
38	May 2016	8.2.3	Work on lift maintenance services commenced prior to the signing of the articles of agreement.	See S/N 36.	Remedial measures in progress
39	May 2016	8.4.2	Output GST has not been applied to legal fees billed to debtors.	AHTC now reports the output tax to IRAS and absorbed the unbilled output GST.	Resolved
40	June 2016	3.1.3	No information/data security policy.	AHTC will review KPMG's comments on the draft <i>Information and Data Security Policy</i> .	Remedial measures in progress
41	June 2016	6.1.2	No policies or procedures governing the maintenance of master data, including the bill codes, in the Accounting System.	AHTC is to implement policies, supported by procedures, to govern the maintenance of the master data, including bill codes and user access rights to its Accounting System.	Pending



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42	June 2016	6.1.2	No detailed user acceptance testing performed prior to the implementation of the automated extraction of S&CC arrears data.	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.	Pending
43	June 2016	6.1.2	The S&CC arrears report for March 2016 did not reconcile with the accounts receivable sub-ledger.	AHTC will perform ongoing reconciliation of the S&CC arrears report with the accounts receivable sub-ledger.	Remedial measures in progress
44	June 2016	6.1.2	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.	AHTC is to perform detailed user acceptance testing of the automated extraction of S&CC arrears data.	Pending
45	June 2016	6.1.2	Changes can be made directly to bill codes without formal approval.	See S/N 41.	Pending
46	June 2016	6.1.2	No audit trail report to facilitate independent review of changes made to master data.	See S/N 41.	Pending
47	June 2016	6.1.2	The 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.	See S/N 41.	Pending
48	June 2016	7.4.4	Supporting documents (e.g. invoices and job sheets) for payments are not invalidated to prevent resubmission of duplicate payments.	AHTC has updated its draft <i>Accounts Payable</i> policy and <i>Petty Cash Management Policy</i> to include the requirement to invalidate supporting documents upon payment.	Remedial measures in progress
49	June 2016	8.2.1	Monthly routine lift maintenance services have been performed without Work Orders.	See S/N 36.	Remedial measures in progress
50	June 2016	8.2.1	Written Instructions and Work Orders have been issued in incorrect FYEs, after work had been undertaken.	Process for monitoring timeliness of issuance of Written Instructions and Work Orders being determined.	Pending



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51	June 2016	8.2.1	<i>Works Instruction & Work Order Approval Matrix</i> dated 4 March 2016 is not consistent with the <i>Delegation of Authority Matrix</i> .	<i>Works Instruction & Work Order Approval Matrix</i> has been rectified.	Remedial measures subject to testing
52	June 2016	8.2.1	Written Instructions approved prior to the establishment of the <i>Works Instruction & Work Order Approval Matrix</i> were not approved in accordance with the <i>Delegation of Authority Matrix</i> .	See S/N 51.	Remedial measures subject to testing
53	June 2016	8.2.1	Approval of Written Instructions after the completion of work.	See S/N 50.	Pending
54	June 2016	8.3.3	Use of four sundry accounts to record unallocated receipts and payments.	See S/N 26.	Remedial measures in progress
55	June 2016	8.3.4	Variances between the balances in the general ledger and aggregated balances in the sub-ledgers as at 31 March 2016 for i) trade and other receivables (excluding deposits and prepayments); and ii) trade and other payables (excluding accrued expenses).	AHTC will implement a reconciliation process between balances in sub-ledgers and general ledger.	Remedial measures in progress
56	July 2016	3.1.3	Use of Direct Payment Journal Entries to record payments.	AHTC now strictly limits the usage of direct posting. AHTC is to update its accounting policies.	Remedial measures in progress
57	July 2016	3.1.7 to 3.1.9	Use of and absence of monitoring of a dummy code to record <i>ad hoc</i> payments to one-time suppliers.	AHTC is to update its accounting policies and implement a monitoring mechanism.	Pending
58	July 2016	3.1.10	Omission of a liability aged more than three years.	AHTC is to update accounting policies and perform supplier statement reconciliations.	Remedial measures in progress
59	July 2016	3.1.10	No follow-up or investigation of 48 payable accounts outstanding for more than three years.	AHTC has commenced investigation of long-outstanding accounts payable. AHTC is to update its accounting policies and implement a monitoring mechanism.	Remedial measures in progress



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60	July 2016	3.1.10	Duplicate recording of a payable outstanding for more than three years.	See S/N 59.	Remedial measures in progress
61	July 2016	B.1.5	<i>Fixed Assets Schedule</i> as at 31 March 2016 does not match the trial balance for the same period.	AHTC is to update accounting policies and perform reconciliations.	Pending
62	July 2016	B.1.6	Reconciliations between the <i>Fixed Assets Schedule</i> and <i>IT Assets Listing</i> have not been performed.	See S/N 62.	Pending
63	July 2016	B.1.7	The <i>Fixed Assets Schedule</i> lacks asset details (e.g. tag number and locations) to facilitate verifying that fixed assets are still in the control of AHTC.	AHTC is to update the <i>Fixed Assets Schedule</i> .	Pending
64	July 2016	B.1.7	Duplicate recording of a desktop in the <i>IT Assets Listing</i> .	AHTC has removed the duplicate record.	Resolved
65	July 2016	B.1.7	The location of three desktops, one CPU and one monitor were not updated correctly in the <i>IT Assets Listing</i> .	AHTC has updated the locations.	Resolved
66	July 2016	B.1.9	No policies or procedures for fixed assets.	AHTC will review KPMG's comments on the draft <i>Fixed Assets Policy</i> .	Remedial measures in progress
67	July 2016	B4.2	The Accounting System to automatically generate the S&CC arrears data was configured incorrectly.	AHTC is working with its IT vendor to rectify the error.	Remedial measures in progress
68	July 2016	B4.2	Proper program change documentation not maintained for the re-configuration of the Accounting System to automatically generate the S&CC arrears data.	AHTC drafted an <i>ERP Change Request Policy</i> on 15 July 2016, to be reviewed by KPMG.	Remedial measures in progress
69	July 2016	B4.2	No verification of vacant units against data from HDB and NEA.	AHTC is to update accounting policies and perform verifications.	Pending



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70	July 2016	B.6.10	Variances in the <i>SC Rebate Clearing</i> account between the S&CC rebate credited by AHTC to eligible Singaporeans for the rebate and the amounts reimbursed by MND to AHTC in the <i>SC Rebate Clearing</i> account.	AHTC is investigating the variances.	Remedial measures in progress