



Aljunied- Hougang Town Council

Report on Progress

KPMG LLP

15 November 2017

This report contains 18 pages



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1 Our engagement

1.1 This report

1.1.1 This monthly report on progress (our “Report”) is issued by KPMG LLP (“KPMG”) in accordance with the Order of the Court (the “Court Order”) in *Attorney-General v AHPETC*, Civil Appeal No. 114 of 2015. The terms of reference for this Report are as follows:

- To assist Aljunied Hougang Town Council (“AHTC”) in identifying all outstanding non-compliance (the “Audit Points”) with s35(c) of the Town Councils Act (Cap. 329A) (the “TCA”);
- To advise AHTC on the steps that must be taken to remedy such outstanding non-compliance;
- Until we are reasonably satisfied that AHTC is fully compliant with s35(c), to produce Reports on the above for AHTC’s submission to the Housing and Development Board (“HDB”) commencing 15 April 2016. Our Reports are to detail:
 - AHTC’s unresolved Audit Points; and
 - The steps that AHTC is taking to remedy the Audit Points (the “Remediation Plans”).

1.1.2 Our first Report was issued on 15 April 2016 and we concluded our recommendations to AHTC on the steps that must be taken to remedy the Audit Points in our Report of 20 July 2016. In our first Report, we had also identified four root causes of the Audit Points.

1.1.3 Our update on the Remediation Plans is at Appendix A of this Report. From our May 2017 Report onwards, we remove root causes and Audit Points from Appendix A as they are resolved. AHTC has requested that we also report on AHTC’s progress in respect of the 71 control failures identified by KPMG (the “Control Failures”), which is reported at Appendix B. As with Appendix A, from our May 2017 Report onwards, we remove Control Failures from Appendix B as they are resolved.

1.2 Summary of status as at November 2017 Report

1.2.1 One Audit Point was resolved since our October 2017 Report. AHTC has taken steps to address certain of the remaining unresolved Audit Points¹ as described in Appendix A, but insufficient to have brought itself into compliance with s35(c) of the TCA in respect of them.

¹ These Audit Points 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 the way in which they have been remedied.



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1.2.2 For those Audit Points where Remediation Plans require AHTC to analyse their accounting records, and that analysis has been provided to KPMG for review, we have described them in this Report as “Remediation Plans implemented, subject to testing” until such time as we have satisfied ourselves that AHTC’s analysis has been satisfactorily performed.

1.3 Progress on Remediation Plans

1.3.1 During this period, AHTC has:

- In respect of the replacement Accounting System, completed the phase two data migration of Accounts Receivable on 27 October 2017. AHTC provided KPMG with the migrated data on 6 November 2017, which we are now reviewing.
- Quantified the input GST claimed on Sinking Fund expenditures that should be transferred to the Sinking Fund bank account for the financial years 2011/2012 to 2015/2016 as SGD6,622,610. AHTC has informed us that it intends to make the necessary transfers to the Sinking Fund bank account in conjunction with the resolution of the Audit Point at Appendix A, S/N 13.

1.4 Current status of Audit Points

1.4.1 The status of the Audit Points is summarized in the table overleaf.

Appendix section	Audit Points	Status of Audit Points as at 15 November 2017		
		Resolved ²	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ³	Subject to further review/recommendations by KPMG ⁴
Management of Sinking Fund⁵				
A.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				
A.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	✓		

² 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.

³ Where the Remediation Plan for a given Audit Point has been implemented by AHTC but testing of its effectiveness and implementation cannot be completed until sufficient data are generated by the operation of the new controls (typically, taking three to six months), we describe them as “subject to testing”.

⁴ 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.

⁵ 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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Appendix section	Audit Points	Status of Audit Points as at 15 November 2017		
		Resolved ²	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ³	Subject to further review/ recommendations by KPMG ⁴
	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				
A.4	Management of S&CC ⁶ arrears	✓		
Internal controls and procurement				
	Weaknesses in the performance of bank reconciliations	✓		
A.5	Weaknesses in controls over cheques received and valuable items and access to the strong room and safe	✓		
	Surprise examinations not conducted in accordance with TCFR ⁷	✓		

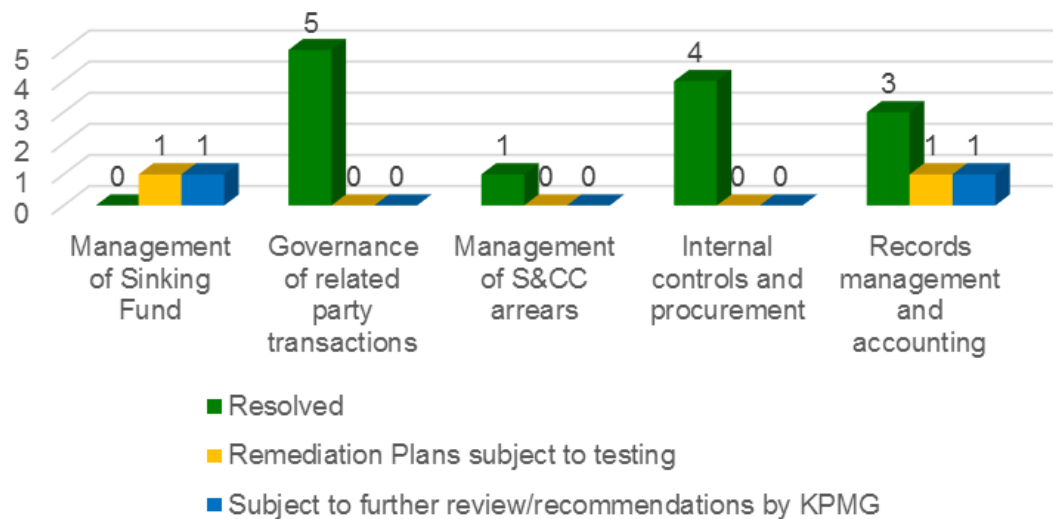
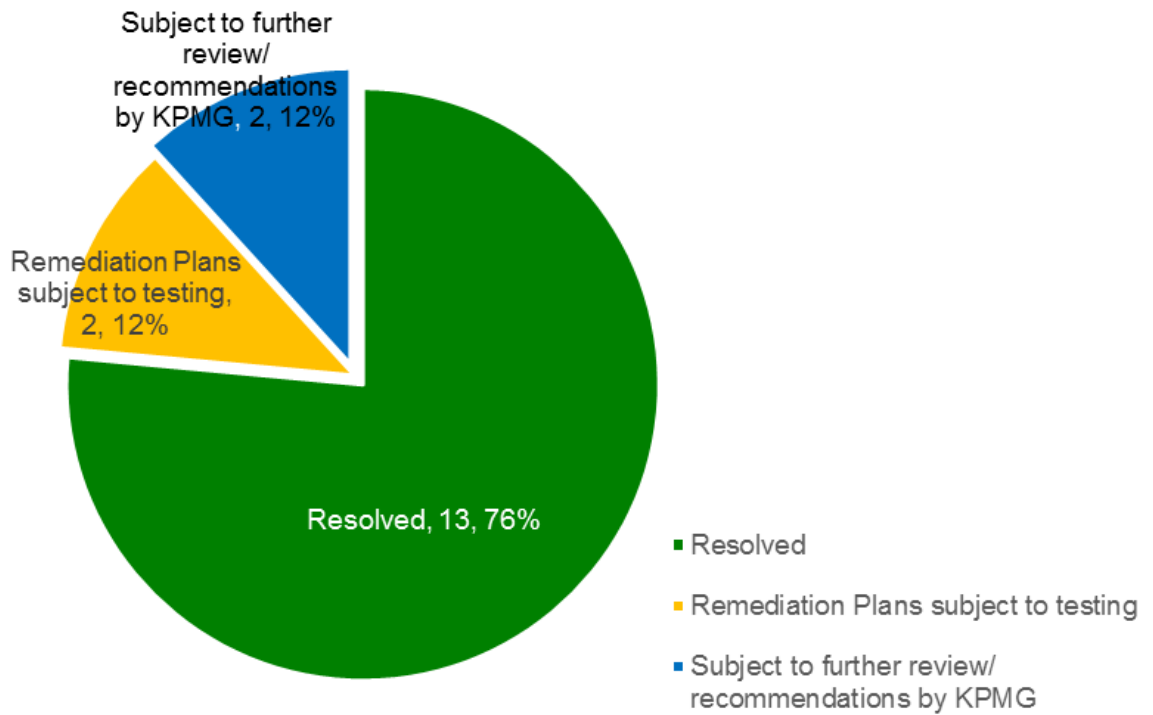
⁶ Service and conservancy charges.

⁷ Town Councils Financial Rules.

Appendix section	Audit Points	Status of Audit Points as at 15 November 2017		
		Resolved ²	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ³	Subject to further review/ recommendations by KPMG ⁴
	Weaknesses in procurement and payment-related processes	✓		
Records management and accounting				
A.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		✓	
	Reconciliation of direct and indirect tax	✓		
	Opening balances			✓

1.4.2 The diagrams overleaf summarize the current remediation status of the Audit Points. Where the Remediation Plan for a given Audit Point has been implemented by AHTC but testing of its effectiveness and implementation cannot be completed until sufficient data are generated by the operation of the new controls, they have been described as “Remediation Plans implemented, subject to testing”.

Status of Audit Points as at 15 November 2017





1.5 Use of this Report

- 1.5.1 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.
- 1.5.2 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.
- 1.5.3 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.

A Appendix: status as at November 2017 Report

A.1 Root causes

S/N	Root cause	Remediation Plan	Progress	Status
8	AHTC Finance Department's capability and management personnel retention	Strengthen the capabilities of the Finance Department.	The process of clearing temporary accounts is ongoing. AHTC has progressively provided, worksheets and the proposed accounting entries that it plans to effect for those temporary accounts items that it has investigated to KPMG for review.	Remedial measures subject to testing.
9	AHTC's Accounting System	Replace the current Accounting System financial modules and incorporate other improvements.	<p>AHTC awarded the contract for the new Accounting System on 25 July 2016. The replacement system is being deployed in two phases:</p> <ul style="list-style-type: none"> — Phase one has been completed. As reported in our June 2017 Report, we have reviewed the operational effectiveness of the controls and processes implemented in relation to the Audit Points at S/N 34 and 38 and were reasonably satisfied that they address those Audit Points. — Phase two data migration on Accounts Receivable was completed on 27 October 2017. AHTC provided KPMG with the migrated data on 6 November 2017, which we are now reviewing. <p>As reported in our October 2017 Report, AHTC has:</p> <ul style="list-style-type: none"> — Analysed email notifications⁸ generated by the replacement 	Remedial measures in progress.

⁸ AHTC had informed us that (i) email error notifications will be generated should an error arise during data integration; and (ii) an activity report will be generated each time that data integration takes place.

S/N	Root cause	Remediation Plan	Progress	Status
			<p>Accounting System which identify failures to integrate data from the input files provided by HDB and NEA with the master data in the replacement Accounting System to ensure that the master data is properly updated. AHTC has requested data from HDB in order to investigate these data integration issues further; and</p> <p>— Followed up with HDB to clarify differences between (i) the credit notes⁹ and invoices¹⁰ issued by AHTC; and (ii) collections and/or reimbursements from HDB, NEA and MND.</p>	
10		<p>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.</p>	<p>AHTC is in the process of reconciling the balances in its sub-ledgers to the general ledger accounts.</p> <p>As reported in our June 2017 Report, there were the following legacy differences from the previous Accounting System:</p> <p>— SGD18,461.24 in the Accounts Payable sub-ledger not found in the general ledger, which AHTC has since reconciled; and</p> <p>— A debit balance of SGD241,928.64 in the general ledger Accrued Payables account not found in the sub-ledger.</p> <p>As reported in our July 2017 Report, AHTC has reconciled</p>	<p>No update as of this Report. Remedial measures in progress.</p>

⁹ These are issued to tenants for MND rebates.

¹⁰ Relating to S&CC billing to HDB (for residential and commercial units) and NEA (hawker stalls) for vacant units.

S/N	Root cause	Remediation Plan	Progress	Status
			differences amounting to SGD1,288,169 ¹¹ between the Accounts Receivable sub-ledger and the general ledger Accounts Receivable brought forward from the previous Accounting System. AHTC is reviewing these reconciling items, which it targets to resolve at the same time as the temporary clearing account balances and matters raised by its external auditors relating to opening balances.	
11		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.	<p>Tracking of the gazetted budget against profit and loss items is now included in the quarterly reporting to AHTC's Finance & Investment Committee and Town Council.</p> <p>AHTC intends to include an updated substantiation schedule for each balance sheet item in its quarterly reporting package. Balance sheet substantiation has been carried out for all balances as at 31 March 2017.</p> <p>AHTC completed phase two data migration of Accounts Receivable on 27 October 2017 and is in the process of updating its balance sheet substantiation schedule for all balances maintained in the replacement Accounting System as at 30 April 2017.</p>	Remedial measures in progress.

¹¹ For S&CC related receivables.

A.2 Management of Sinking Fund

S/N	Audit Point	Remediation Plan	Progress	Status
12	Incorrect computation of required transfers to the Sinking Fund, and/or shortfall or delay in transfer to Sinking Fund bank accounts	Establish a policy and supporting procedures to govern transfers to the Sinking Fund bank accounts.	Resolved, as reported in our June 2017 Report.	Resolved.
13		Identify and rectify erroneous and/or delayed transfers to the Sinking Fund bank accounts.	AHTC has quantified the input GST claimed on Sinking Fund expenditures that should be transferred to the Sinking Fund bank account for the financial years 2011/2012 to 2015/2016 as SGD6,622,610. AHTC is undertaking further analysis of data to support the past transfers and payments in relation to the Sinking Fund expenditures for the period from August 2011 to March 2016.	Remedial measures in progress.
14		Verify the accuracy of the calculation of Sinking Fund transfers from income sources other than S&CC (e.g. input GST and government grants).	See Appendix A, S/N 13.	Remedial measures in progress.
15		Establish standardized documentation and supporting documentation requirements for calculation, review and approval of Sinking Fund transfers.	Resolved, as reported in our June 2017 Report.	Resolved.
16		Identify and rectify any erroneous and/or delayed transfers to the	Implement guidelines on the types of expenses for which the Sinking Fund may be used.	Resolved, as reported in our April 2016 Report.

S/N	Audit Point	Remediation Plan	Progress	Status
17	Sinking Fund bank accounts	Identify and rectify instances where monies in the Sinking Fund bank accounts were incorrectly used.	See Appendix A, S/N 13.	Remedial measures subject to testing.

A.3 Governance of related party transactions

Resolved.

A.4 Management of S&CC arrears

Resolved.

A.5 Internal controls and procurement

Resolved.

A.6 Records management and accounting

S/N	Audit Point	Remediation Plan	Progress	Status
40	Absence of monitoring of and exercising diligence over collection from/payment to external parties and items in temporary clearing accounts	Implement a reconciliation process between balances in sub-ledgers and general ledger.	Accounting policy and supporting procedures governing reconciliation process between balances in the sub-ledgers and general ledger and balance sheet substantiation have been established. See Appendix A, S/N 11.	Remedial measures in progress.
41		Clear items in the temporary clearing accounts.	See Appendix A, S/N 8.	Remedial measures subject to testing.

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S/N	Audit Point	Remediation Plan	Progress	Status
42	Reconciliation of direct and indirect tax	Completion of the self-review of past GST returns and disclosure of errors to the Inland Revenue Authority of Singapore under the Voluntary Disclosure Programme.	AHTC has submitted its amended GST returns for the period from August 2011 to March 2017 to IRAS on 17 July 2017.	Resolved.
43		Computation of input GST claimed on Sinking Fund expenditures that should be transferred to the Sinking Fund bank account.	<p>AHTC has quantified the input GST claimed on Sinking Fund expenditures that should be transferred to the Sinking Fund bank account for the financial years 2011/2012 to 2015/2016 as SGD6,622,610.</p> <p>AHTC has informed us that it intends to make the necessary transfers to the Sinking Fund bank account in conjunction with the resolution of the Audit Point at Appendix A, S/N 13.</p>	Resolved.

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S/N	Audit Point	Remediation Plan	Progress	Status
44	Opening balances	Resolve opening balances	<p>AHTC has commenced investigation of the matters raised by its external auditors on the opening balances.</p> <p>As reported in our October 2017 report, AHTC has resolved the following points raised in the disclaimer by its external auditors, Audit Alliance LLP, in their audit report for the financial year ended 31 March 2016 issued on 24 February 2017:</p> <ul style="list-style-type: none"> — three remaining unresolved points¹² relating to opening balances that were reported by AHTC's predecessor auditors, Foo Kon Tan Grant Thornton LLP, in their audit report for the financial year ended 31 March 2013; and — service and conservancy fees received in advance for an amount of \$507,809 (being conservancy and service fees received in advance as at 31 March 2013). 	No update as of this Report. Remedial measures in progress.

¹² Relating to amounts of SGD90,113, SGD306,972 and SGD22,955 under the captions of (i) Receivables from Various Stakeholders – Other Receivables, (ii) Receivables from Various Stakeholders – Reimbursement from Citizen Consultative Committee, and (iii) Payables and Accrued Expenses – Trade Payables and Accrued Operating Expenses, respectively.



B Appendix: Control Failures identified by KPMG

S/N	Control Failure	Progress	Status
6	Balance sheet substantiation was not performed.	See Appendix A, S/N 11 and 40.	Remedial measures in progress.
10	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.	See Appendix A, S/N 9, 10 and 11.	Remedial measures in progress.
11	Inability to complete certain accounting operations automatically, such as year-end balance rollovers.	See Appendix A, S/N 9.	Remedial measures in progress.
26	Temporary clearing accounts not investigated and cleared.	See Appendix A, S/N 8.	Remedial measures subject to testing.
54	Use of four sundry accounts to record unallocated receipts and payments.	See Appendix A, S/N 8.	Remedial measures subject to testing.
55	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).	See Appendix A, S/N 10.	No update as of this Report. Remedial measures in progress.
59	No follow-up or investigation of 48 payable accounts outstanding for more than three years.	AHTC has investigated and paid two of the 48 long-outstanding payable accounts.	No update as of this Report. Remedial measures subject to testing.
62	Reconciliations between the <i>Fixed Assets Schedule</i> and <i>IT Assets Listing</i> have not been performed.	AHTC has reconciled its Fixed Assets Schedule and IT Assets Listing.	Resolved.
69	No verification of vacant units against data from HDB and the National Environment Agency.	See Appendix A, S/N 9.	Remedial measures in progress.



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S/N	Control Failure	Progress	Status
70	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.	See Appendix A, S/N 8.	Remedial measures subject to testing.