



Aljunied- Hougang Town Council

Report on Progress

KPMG LLP

15 January 2018

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 January 2018 Report

1.2.1 Two Audit Points were resolved since our December 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:

- Calculated the shortfall in past transfers to the Sinking Fund bank accounts from August 2011 to March 2016 to identify the required amounts to transfer to the Sinking Fund bank accounts.² AHTC has adopted two simplifying assumptions for the purposes of the calculation:
 - The amount to be transferred to the Sinking Fund bank accounts is reduced by any sums paid from the Operating Fund bank accounts for Sinking Fund expenses. AHTC used the Accounts Payable module in the Accounting System to identify such Sinking Fund expenses paid from the Operating Fund bank accounts. Expenses that were not processed using the Accounts Payable module, for example manual journal entries, would not be identified. This may result in the sum AHTC has calculated for transfer to the Sinking Fund bank accounts being larger than the amount required.
 - AHTC has used the full value of the S&CC and GST subvention grants attributable to the Sinking Fund without deducting amounts that have not yet been collected at each quarter end.³ The effect of doing so is that the sum AHTC has calculated for transfer to the Sinking Fund bank accounts will be larger than the amount required.
- This calculation indicates that there has been an under-transfer of up to SGD5,293,516 to the Sinking Fund bank accounts.
- In addition, the principal and interest of a bond attributable to the Sinking Fund totalling SGD2,037,500 was erroneously transferred to an Operating Fund bank account upon maturity,⁴ which AHTC has yet to rectify.

1.3.2 AHTC informed us that it intends to transfer the shortfall (along with input GST claimed on Sinking Fund expenditures of SGD6,622,610⁵) totalling SGD13,953,626 to the Sinking Fund bank accounts in four quarterly transfers with effect from February 2018 as follows:

- February 2018 (SGD3,488,406.50);

² Including i) fund transfers incorrectly made into the operating fund bank accounts from Sinking Fund bank accounts fixed deposits, bonds or investments; and ii) payments of operating expenses recorded in AHTC’s accounts but paid incorrectly from the Sinking Fund bank accounts.

³ AHTC does not segregate Sinking Fund receivables from Operating Fund receivables in its general ledger. The Finance Department must manually compute the receivables attributable to the Sinking Fund for the purpose of preparing AHTC’s annual financial statements.

⁴ On 1 September 2016.

⁵ As reported in our November 2017 Report.

- May 2018 (SGD3,488,406.50);
- August 2018 (SGD3,488,406.50); and
- November 2018 (SGD3,488,406.21).

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 January 2018		
		Resolved ⁶	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ⁷	Subject to further review/recommendations by KPMG ⁸
Management of Sinking Fund⁹				
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	✓		

⁶ 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.

⁷ 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”.

⁸ 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.

⁹ 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 January 2018		
		Resolved ⁶	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ⁷	Subject to further review/ recommendations by KPMG ⁸
	Waiver of open tenders and competitive quotations for services provided by the Related Parties	✓		
	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 ¹⁰ arrears	✓		
Internal controls and procurement				
A.5	Weaknesses in the performance of bank reconciliations	✓		
	Weaknesses in controls over cheques received and valuable items and access to the strong room and safe	✓		

¹⁰ Service and conservancy charges.

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Appendix section	Audit Points	Status of Audit Points as at 15 January 2018		
		Resolved ⁶	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ⁷	Subject to further review/ recommendations by KPMG ⁸
	Surprise examinations not conducted in accordance with TCFR ¹¹	✓		
	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			✓

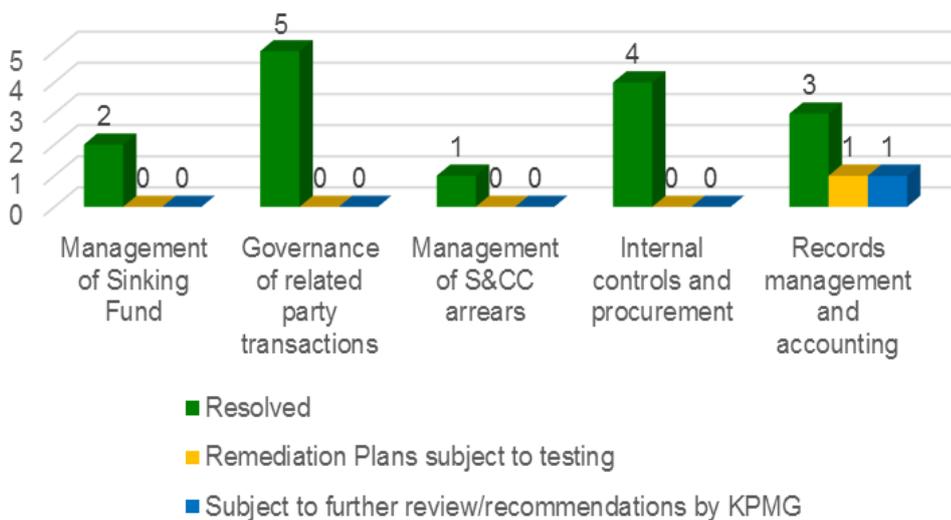
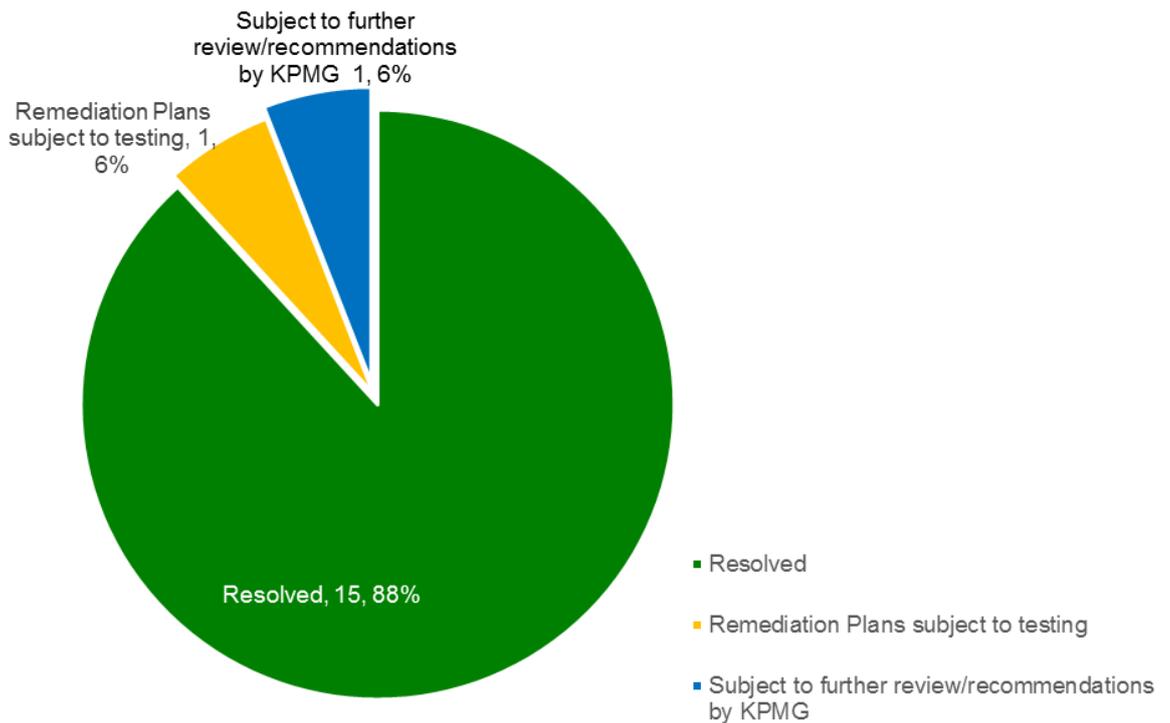
1.4.2 The diagrams overleaf summarize the current remediation status of the Audit Points. Where the Remediation Plan for a given Audit Point has been implemented by AHTC but testing of its effectiveness and implementation cannot be completed until sufficient

¹¹ Town Councils Financial Rules.

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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 January 2018





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 January 2018 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, with over 99 per cent of them cleared.	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 was fully deployed as of 27 October 2017. Our review indicates there are:</p> <ul style="list-style-type: none"> — Legacy differences¹² between the Accounts Receivable balance in the general ledger and the Accounts Receivable sub-ledger balances brought forward from the previous Accounting System; and — A portion of the Accounts Receivable sub-ledger balances, consisting of disputed receivables of SGD880,809, that were not migrated to the replacement Accounting System. The Town Council has approved these disputed amounts being written-off from the sub-ledger. <p>In addition, as reported in our October 2017 Report, AHTC has:</p> <ul style="list-style-type: none"> — Analysed email notifications generated by the replacement Accounting System which 	Remedial measures in progress.

¹² The Accounts Receivable sub-ledger balance is SGD1,310,409 higher than the total of the Accounts Receivable in the general ledger.

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S/N	Root cause	Remediation Plan	Progress	Status
			<p>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 notes¹³ and invoices¹⁴ 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>As reported in our June 2017 Report, a debit balance of SGD241,928.64 in the general ledger Accrued Payables account was not found in the sub-ledger. The Town Council has approved the entire debit balance of SGD241,928.64 being written-off.</p> <p>In addition, as reported in our July 2017 Report, AHTC has reconciled differences amounting to SGD1,288,169¹⁵ 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.</p>	Remedial measures in progress.
11		Arrange for the provision	AHTC has been progressively	Resolved

¹³ These are issued to tenants for MND rebates.

¹⁴ Relating to S&CC billing to HDB (for residential and commercial units) and NEA (hawker stalls) for vacant units.

¹⁵ For S&CC related receivables.

S/N	Root cause	Remediation Plan	Progress	Status
		of detailed transaction reports to provide the information required for AHTC's Finance Department to review and substantiate management and financial reporting.	<p>updating its balance sheet substantiation schedule for all balances maintained in the replacement Accounting System, except for temporary clearing and GST related accounts.</p> <p>The rework required for certain of the substantiation schedules (which had been based upon movements in the balance sheet accounts) has been agreed. In addition, AHTC informed us that substantiation schedules would be prepared for:</p> <ul style="list-style-type: none"> — temporary clearing accounts subsequent to it clearing the legacy items in these accounts (see Appendix A S/N 8); and — GST related accounts on a quarterly basis. 	

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	Incorrect computation of required transfers to the Sinking Fund, and/or shortfall or delay in transfer to Sinking Fund bank accounts	Identify and rectify erroneous and/or delayed transfers to the Sinking Fund bank accounts.	<p>As reported in our November 2017 Report, 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 calculated the shortfall in past transfers to the Sinking Fund</p>	Resolved.

S/N	Audit Point	Remediation Plan	Progress	Status
			<p>bank accounts from August 2011 to March 2016 to identify the required amounts to transfer to the Sinking Fund bank accounts.¹⁶ AHTC has adopted two simplifying assumptions for the purposes of the calculation:</p> <ul style="list-style-type: none"> — The amount to be transferred to the Sinking Fund bank accounts is reduced by any sums paid from the Operating Fund bank accounts for Sinking Fund expenses. AHTC used the Accounts Payable module in the Accounting System to identify such Sinking Fund expenses paid from the Operating Fund bank accounts. Expenses that were not processed using the Accounts Payable module, for example manual journal entries, would not be identified. This may result in the sum AHTC has calculated for transfer to the Sinking Fund bank accounts being larger than the amount required. — AHTC has used the full value of the S&CC and GST subvention grants attributable to the Sinking Fund without deducting amounts that have not yet been collected at each quarter end.¹⁷ The effect of doing so is that the sum AHTC has calculated for transfer to the Sinking Fund bank accounts will be larger than the amount required. <p>This calculation indicates that there has been an under-transfer of up to SGD5,293,516 to the Sinking Fund bank accounts.</p>	

¹⁶ Including i) fund transfers incorrectly made into the operating fund bank accounts from Sinking Fund bank accounts fixed deposits, bonds or investments; and ii) payments of operating expenses recorded in AHTC's accounts but paid incorrectly from the Sinking Fund bank accounts.

¹⁷ AHTC does not segregate Sinking Fund receivables from Operating Fund receivables in its general ledger. The Finance Department must manually compute the receivables attributable to the Sinking Fund for the purpose of preparing AHTC's annual financial statements.

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S/N	Audit Point	Remediation Plan	Progress	Status
			<p>In addition, the principal and interest of a bond attributable to the Sinking Fund totalling SGD2,037,500 was erroneously transferred to an Operating Fund bank account upon maturity,¹⁸ which AHTC has yet to rectify.</p> <p>AHTC informed us that it intends to transfer the shortfall (along with input GST claimed on Sinking Fund expenditures of SGD6,622,610¹⁹) totalling SGD13,953,626 to the Sinking Fund bank accounts in four quarterly transfers with effect from February 2018 as follows:</p> <ul style="list-style-type: none"> — February 2018 (SGD3,488,406.50); — May 2018 (SGD3,488,406.50); — August 2018 (SGD3,488,406.50); and — November 2018 (SGD3,488,406.21). <p>On the basis that the said transfers are performed as scheduled, we have considered this point resolved.</p>	
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.	Resolved.
15		Establish standardized documentation and supporting documentation requirements for	Resolved, as reported in our June 2017 Report.	Resolved.

¹⁸ On 1 September 2016.

¹⁹ As reported in our November 2017 Report.

S/N	Audit Point	Remediation Plan	Progress	Status
		calculation, review and approval of Sinking Fund transfers.		
16	Identify and rectify any erroneous and/or delayed transfers to the Sinking Fund bank accounts	Implement guidelines on the types of expenses for which the Sinking Fund may be used.	Resolved, as reported in our April 2016 Report.	Resolved.
17		Identify and rectify instances where monies in the Sinking Fund bank accounts were incorrectly used.	See Appendix A, S/N 13.	Resolved.

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.	See Appendix A, S/N 11.	Resolved.
41		Clear items in the temporary clearing accounts.	See Appendix A, S/N 8.	Remedial measures subject to testing.
44	Opening balances	Resolve opening balances	<p>AHTC has investigated the matters raised by its external auditors on the opening balances.</p> <p>As reported in our October 2017 report, AHTC has resolved all of the points raised in relation to opening balances in the disclaimer of opinion by its external auditors, Audit Alliance LLP, in their audit report for the financial year ended 31 March 2016 issued on 24 February 2017, except for one point related to the unwillingness of a predecessor auditor to provide access to its work papers to Audit Alliance LLP.</p> <p>See also Appendix A, S/N 8.</p>	Remedial measures in progress.



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.	Resolved.
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 11.	Resolved.
11	Inability to complete certain accounting operations automatically, such as year-end balance rollovers.	See Appendix A, S/N 9. The previous Accounting System has been replaced. The trial balance report has been programmed to reflect balances after the year-end rollovers and AHTC informs us that accounting procedures will be implemented to manage the process.	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	Variiances 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.	Remedial measures in progress.
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.