



# Aljunied- Hougang Town Council

## Report on Progress

KPMG LLP

14 February 2018

This report contains 15 pages



## Contents

1	Our engagement	1
1.1	This report	1
1.2	Summary of status as at February 2018 Report	1
1.3	Progress on Remediation Plans	2
1.4	Conclusion on Remediation Plans	2
1.5	Status of Audit Points	3
1.6	Use of this Report	6
A	Appendix: status as at February 2018 Report	8
A.1	Root causes	8
A.2	Management of Sinking Fund	8
A.3	Governance of related party transactions	8
A.4	Management of S&CC arrears	9
A.5	Internal controls and procurement	9
A.6	Records management and accounting	9
B	Appendix: Control Failures identified by KPMG	13



## **1 Our engagement**

### **1.1 This report**

1.1.1 This final 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”<sup>1</sup>);
- 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. In this Report, we conclude our updates on the Remediation Plans undertaken by AHTC.

1.1.3 Our final update on the Remediation Plans is at Appendix A of this Report. From our May 2017 Report onwards, we have removed 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 have removed Control Failures from Appendix B as they are resolved. Consequently, this Report contains only those Audit Points, Control Failures and root causes outstanding at the time of our January 2018 Report.

### **1.2 Summary of status as at February 2018 Report**

1.2.1 Two Audit Points, all of those remaining, were resolved since our January 2018 Report. AHTC’s steps to address the remaining unresolved Audit Points, as described in

---

<sup>1</sup> As in force at the time of the Court Order. The TCA was amended by the Town Councils (Amendment) Act 2017 (No. 17 of 2017) with effect from 1 May 2017, as a result of which the version of s35(c) referred to in the Court Order is no longer in force.



Appendix A, such that we are reasonably satisfied that AHTC is compliant with s35(c) of the TCA in this respect.

1.2.2 Accordingly, this is our final Report under the terms of reference of the Court Order.

### **1.3 Progress on Remediation Plans**

1.3.1 During this period, AHTC has resolved the outstanding Audit Points from our January 2018 Report.

### **1.4 Conclusion on Remediation Plans**

1.4.1 In planning and performing our review under the terms of reference of the Court Order, we considered internal control over matters relating to compliance with s35(c) of the TCA as a basis for designing our procedures for the purpose of determining whether Audit Points have been remedied such that we are reasonably satisfied that AHTC is compliant with s35(c) of the TCA, but not for the purpose of expressing an opinion on the effectiveness of the internal control of AHTC. Our consideration of internal control is therefore limited to the extent of enabling us to design our procedures for this purpose and our procedures are not intended to and may not bring to light all deficiencies or material weaknesses in internal control which may exist.

1.4.2 In assessing the available evidence on whether an Audit Point or Control Failure is resolved, we had considered an Audit Point or Control Failure not resolved where the available evidence indicates that:

- a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, non-compliance with s35(c) of the TCA on a timely basis; or
- a control necessary to prevent, or detect and correct, non-compliance with s35(c) of the TCA is missing;
- there is a reasonable possibility that non-compliance with s35(c) of the TCA will not be prevented or detected on a timely basis.

1.4.3 The Town Council is responsible for designing and maintaining a system of internal control sufficient for compliance with s35(c) of the TCA. Because of inherent limitations in internal control, non-compliance, errors or fraud may nevertheless occur and not be detected. In addition, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization. Consequently, projection of any evaluation of the internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions, personnel or that the degree of compliance with the procedures may deteriorate.

## 1.5 Status of Audit Points

1.5.1 The status of the Audit Points is summarized in the table below.

Appendix section	Audit Points	Status of Audit Points as at 14 February 2018		
		Resolved <sup>2</sup>	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing	Subject to further review/ recommendations by KPMG
<b>Management of Sinking Fund<sup>3</sup></b>				
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	✓		
<b>Governance of related party transactions</b>				
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	✓		
	Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties	✓		

<sup>2</sup> The Audit Point has been remedied such that we are reasonably satisfied that AHTC is compliant with s35(c) of the TCA in this respect.

<sup>3</sup> Fund established and maintained by Town Councils for improvements, management and maintenance relating to residential and commercial properties in their towns.

**Aljunied-Hougang Town Council**  
 Report on Progress  
 14 February 2018

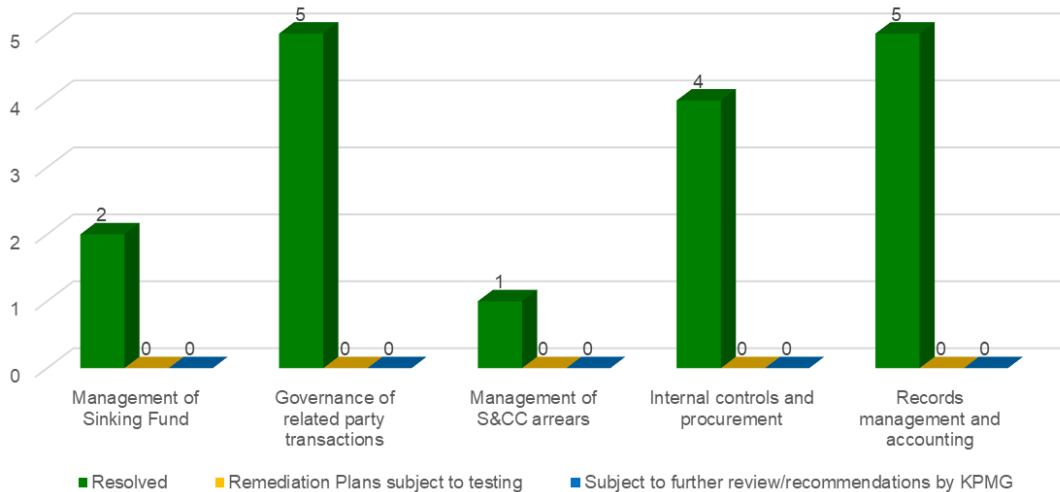
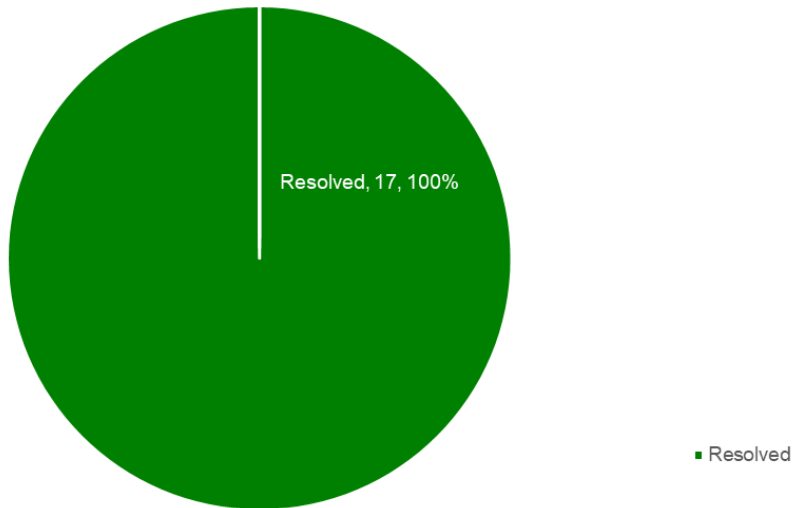
Appendix section	Audit Points	Status of Audit Points as at 14 February 2018		
		Resolved <sup>2</sup>	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing	Subject to further review/ recommendations by KPMG
	Weaknesses in the approval of payments to the Related Parties	✓		
	Approvals for services obtained and written agreements executed after the awarding and commencement of services provided by the Related Parties	✓		
<b>Management of S&amp;CC arrears</b>				
<b>A.4</b>	Management of S&CC <sup>4</sup> arrears	✓		
<b>Internal controls and procurement</b>				
<b>A.5</b>	Weaknesses in the performance of bank reconciliations	✓		
	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 <sup>5</sup>	✓		
	Weaknesses in procurement and payment-related processes	✓		

<sup>4</sup> Service and conservancy charges.

<sup>5</sup> Town Councils Financial Rules.

Appendix section	Audit Points	Status of Audit Points as at 14 February 2018		
		Resolved <sup>2</sup>	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing	Subject to further review/recommendations by KPMG
<b>Records management and accounting</b>				
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	✓		

1.5.2 The diagrams overleaf represent the remediation status of the Audit Points.



## 1.6 Use of this Report

1.6.1 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.





**Aljunied-Hougang Town Council**

Report on Progress

14 February 2018

- 1.6.2 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.
- 1.6.3 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 February 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.	AHTC's Finance Department has resolved the outstanding Finance-related Audit Points.	Resolved.
9	AHTC's Accounting System	Replace the current Accounting System financial modules and incorporate other improvements.	AHTC awarded the contract for the new Accounting System on 25 July 2016. The replacement system was fully deployed as of 27 October 2017.	Resolved.
10		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.  AHTC will continue to liaise with HDB on variances arising between AHTC's data and that of HDB, NEA and MND and track any differences on an ongoing basis.	The Town Council has approved adjustments to equalize the general ledger to the sub-ledger balances for legacy differences between the Accounts Receivable balance in the general ledger and the Accounts Receivable sub-ledger balances brought forward from the previous Accounting System.	Resolved.

### A.2 Management of Sinking Fund

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		Implement a reconciliation process between balances in sub-ledgers and general ledger.	See Appendix A, S/N 11 of our January 2018 Report.	Resolved.
41	Absence of monitoring of and exercising diligence over collection from/payment to external parties and items in temporary clearing accounts	Clear items in the temporary clearing accounts.	<p>The AHTC Finance Department has completed the process of clearing temporary accounts as of 30 January 2018. AHTC has identified the nature of the balances in all of its temporary accounts.</p> <p>A large proportion of items in the temporary accounts were legacy accounting entries, which AHTC has resolved, for example, by setting off previously unmatched credit and debit entries for the same transactions.</p> <p>Of the remaining items:</p> <ul style="list-style-type: none"> <li>— Efforts have been made to recover any long-outstanding receivables found in the temporary accounts. Where recovery was not possible or the likelihood of recovery has been assessed to be low, provision has been made or the items written off.</li> <li>— Efforts have also been made to</li> </ul>	Resolved.

**Aljunied-Hougang Town Council**

Report on Progress

14 February 2018

S/N	Audit Point	Remediation Plan	Progress	Status
			<p>pay or return outstanding liabilities assessed to be valid.<sup>6</sup> Where payment or return was not possible, or the validity of the liability could not be established, these will be maintained as balances in unclaimed liabilities accounts<sup>7</sup>, which will be tracked and adjusted as required on an ongoing basis to ensure they are not co-mingled with other accounts.</p> <p>— The Town Council has approved recognition of items that AHTC has assessed should have been recognized as income or expense in AHTC's Statement of Comprehensive Income for the financial year ending ("FYE") 31 March 2018.</p>	
44	Opening balances	Resolve opening balances	<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 auditor, Audit Alliance LLP ("AA"), in their audit report for the FYE 31 March 2016 issued on 24 February 2017, except for one point related to the unwillingness of a predecessor auditor to provide AA access to its work papers. AA again raised this point in their audit report for FYE 31 March 2017 issued on 29 September 2017.</p> <p>The audits of AHTC's financial statements for the period from 1 April 2011 to 31 March 2017 were undertaken by three different firms of external auditors:</p>	Resolved.

<sup>6</sup> Certain Giro deductions were made twice in April 2012 as a result of a system upload error in matching S&CC receipts to the tenants' accounts. These totalled SGD47,023.87, of which refunds or credit notes have reduced the remaining balance to SGD2,918.10 as of the date of this Report.

<sup>7</sup> For example, a remaining net balance in the *SC Rebate Clearing* account (being the variance between the amount recorded by AHTC as receivable from HDB and the amount subsequently paid by HDB) totalling SGD18,354 as of 31 March 2016, some of which relates to transactions that pre-date May 2011.

**Aljunied-Hougang Town Council**

Report on Progress

14 February 2018

S/N	Audit Point	Remediation Plan	Progress	Status
			<p>— Mazars LLP, in relation to the financial statements of the former Aljunied Town Council for the period 1 April 2011 to 31 July 2011;</p> <p>— Foo Kon Tan Grant Thornton LLP (“FKT”), in relation to the financial statements of AHTC for FYE 31 March 2012<sup>8</sup> and 2013; and</p> <p>— AA in relation to the financial statements of AHTC for FYE 31 March 2014 to 2017.</p> <p>Both AA and FKT issued a disclaimer of opinion on the opening balances that were audited by their predecessor auditors.</p> <p>An auditor is required to obtain sufficient appropriate audit evidence as to whether opening balances contain misstatements that materially affect the current period’s financial statements. We have suggested that, for the audit for FYE 31 March 2018, AHTC should request that its external auditors undertake specific audit procedures in relation to its opening balances and to evaluate whether part of the current period’s audit procedures could provide audit evidence</p>	

<sup>8</sup> AHTC’s inaugural financial statements were for FYE 31 March 2012, and include the financial statements for the period 1 April 2011 to 31 July 2011 of the former Aljunied Town Council, which was audited by Mazars LLP. In its audit report on AHTC’s financial statements for FYE 31 March 2012, FKT, the predecessor auditor to AA, stated that it was unable to determine whether the income and expenses and receipts and payments for the period 1 April 2011 to 31 July 2011 of the former Aljunied Town Council that were included in AHTC’s financial statements for FYE 31 March 2012 were fairly stated for the following reasons:

- FKT was not allowed access to the audit documentation of Mazars LLP;
- FKT was not able to obtain supporting accounting documents from the previous managing agent of the former Aljunied Town Council.



**Aljunied-Hougang Town Council**  
Report on Progress  
14 February 2018

S/N	Audit Point	Remediation Plan	Progress	Status
			<p>relevant to AHTC's opening balances.<sup>9</sup></p> <p>With the completion of the clearing of items in its temporary accounts (see Appendix A, S/N 41), AHTC should be able to substantiate all balances in its statement of financial position (balance sheet) and also determine whether there were cut-off errors that affect its current period financial statements. On this basis, we have considered this point resolved.</p>	

---

<sup>9</sup> For example, the collection (payment) of opening accounts receivables (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.



## B Appendix: Control Failures identified by KPMG

S/N	Control Failure	Progress	Status
26	Temporary clearing accounts not investigated and cleared.	See Appendix A, S/N 41.	Resolved.
54	Use of four sundry accounts to record unallocated receipts and payments.	See Appendix A, S/N 41.	Resolved.
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.	Resolved.
69	No verification of vacant units against data from HDB and the National Environment Agency.	See Appendix A, S/N 10.	Resolved.
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 41.	Resolved.