



Aljunied- Hougang Town Council

Report on Progress

KPMG LLP

15 September 2017

This report contains 20 pages



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Contents

1	Our engagement	1
1.1	This report	1
1.2	Summary of status as at September 2017 Report	1
1.3	Progress on Remediation Plans	2
1.4	Current status of Audit Points	2
1.5	Use of this Report	7
A	Appendix: status as at September 2017 Report	8
A.1	Root causes	8
A.2	Management of Sinking Fund	11
A.3	Governance of related party transactions	13
A.4	Management of S&CC arrears	13
A.5	Internal controls and procurement	14
A.6	Records management and accounting	14
B	Appendix: Control Failures identified by KPMG	16



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 September 2017 Report

1.2.1 One Audit Point was resolved since our August 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.



- 1.2.2 For those Audit Points where Remediation Plans have been implemented by AHTC but testing of the effectiveness of the implementation cannot be completed until there are sufficient data from the operation of the new control (typically, taking three to six months) to test, we have described them in this report as “Remediation Plans implemented, subject to testing” in this Report.

1.3 Progress on Remediation Plans

- 1.3.1 AHTC has implemented Remediation Plans for the Audit Point relating to Management of S&CC Arrears as follows:

- the Accounting System has been configured to generate S&CC arrears data automatically; and
- detailed user acceptance testing has been performed on the automated extraction of S&CC arrears data, including reconciliation of the extracted data with the accounts receivable sub-ledger.

- 1.3.2 During this period, AHTC has:

- revised user access rights for the replacement Accounting System;
- established controls on creation or amendment of charge types² in the replacement Accounting System, requiring a system administrator to grant system access before a user can effect changes; and
- created an audit report for changes made to master data in the replacement Accounting System.

1.4 Current status of Audit Points

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

² Charge type is equivalent to “bill codes” in the previous Accounting System.



Aljunied-Hougang Town Council
 Report on Progress
 15 September 2017

Appendix section	Audit Points	Status of Audit Points as at 15 September 2017		
		Resolved ³	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ⁴	Subject to further review/recommendations by KPMG ⁵
Management of Sinking Fund⁶				
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	✓		
	Lack of disclosures, due diligence and assessment of potential conflicts of interest prior to awarding contracts to the Related Parties	✓		

³ 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.

⁴ 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”.

⁵ 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.

⁶ 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
 15 September 2017

Appendix section	Audit Points	Status of Audit Points as at 15 September 2017		
		Resolved ³	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ⁴	Subject to further review/ recommendations by KPMG ⁵
	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 ⁷ 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	✓		
	Surprise examinations not conducted in accordance with TCFR ⁸	✓		
	Weaknesses in procurement and payment-related processes	✓		
Records management and accounting				

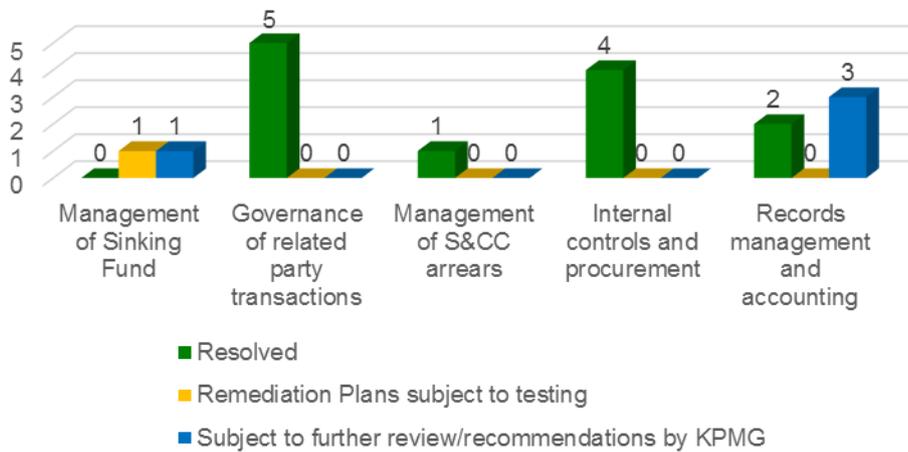
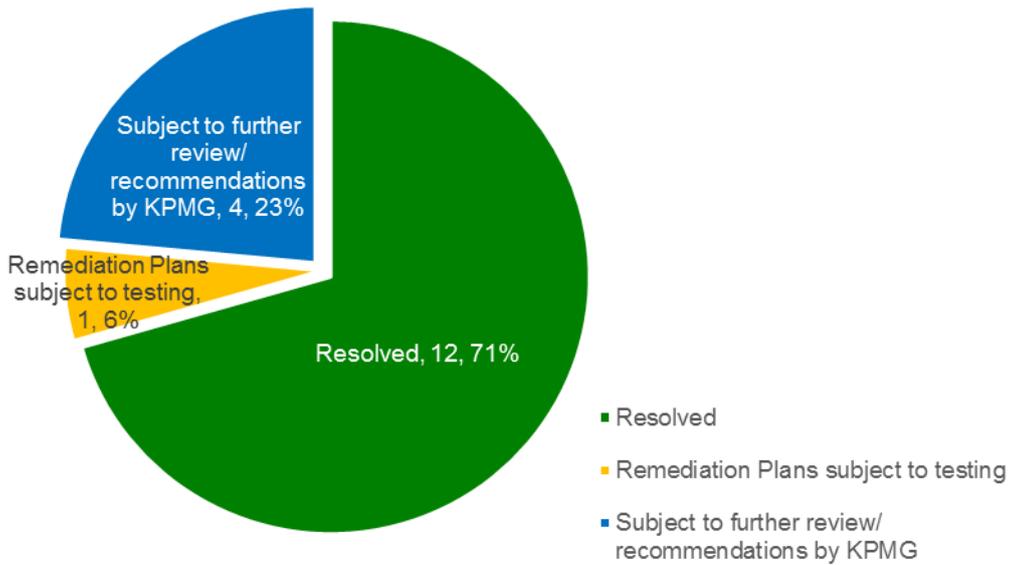
⁷ Service and conservancy charges.

⁸ Town Councils Financial Rules.

Appendix section	Audit Points	Status of Audit Points as at 15 September 2017		
		Resolved ³	Remediation Plans in progress	
			Remediation Plans implemented, subject to testing ⁴	Subject to further review/ recommendations by KPMG ⁵
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 subject to testing”.

Status of Audit Points as at 15 September 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 September 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.	AHTC informed us that it has reorganized its Finance Department resources to expedite the clearing of the temporary accounts and that the process of clearing temporary accounts is ongoing and is currently approximately 75% complete.	No update as of this Report. Remedial measures in progress.
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 migration commenced on 1 April 2017 and is still ongoing. AHTC is still addressing the following observations that were reported in our July 2017 report: <ul style="list-style-type: none"> - AHTC has not migrated certain items in the Accounts Receivable sub-ledger in the previous Accounting System to the Accounts Receivable sub- 	Remedial measures in progress.

Aljunied-Hougang Town Council
 Report on Progress
 15 September 2017

S/N	Root cause	Remediation Plan	Progress	Status
			<p>ledger in the replacement Accounting System⁹;</p> <ul style="list-style-type: none"> - The daily and monthly input files from HDB and NEA are now automatically updated into the replacement Accounting System. AHTC 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. AHTC informed us that it is performing user acceptance testing on these system controls and is analysing email error notifications generated to date; and - There were differences between the (i) credit notes¹⁰ or invoices¹¹ issued by AHTC; and (ii) collections and/or reimbursements from the relevant authorities (i.e. MND, HDB and NEA). Reconciliations should be performed to ensure that these balances match. AHTC has worked with its vendor to develop a system-generated exceptions report to be run periodically. AHTC will work with the relevant authorities to resolve the differences. 	

⁹ AHTC has provided the list of Accounts Receivables subledger items that have not been migrated and informed us that these items comprise (i) arrears from ex-lessees; (ii) vacant units; and (iii) sundry debtors.

¹⁰ These are issued to tenants for MND rebates.

¹¹ Relating to S&CC billing to HDB (for residential and commercial units) and NEA (hawker stalls) for vacant units.

Aljunied-Hougang Town Council
 Report on Progress
 15 September 2017

S/N	Root cause	Remediation Plan	Progress	Status
			AHTC has, since our August 2017 Report, (i) updated the general ledger opening balances used in the replacement Accounting System to the 31 March 2017 closing balances; and (ii) rectified a configuration error in the extraction of tenancy start dates from the HDB input files for the tenants masterfile.	
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.	<p>AHTC is in the process of reconciling the balances in its sub-ledgers to the general ledger accounts. In addition to performing month end balance sheet substantiation and reconciliation, we were informed by AHTC that it will ensure that manual entries cannot be posted directly to general ledger accounts that are linked to sub-ledgers in the replacement Accounting System.</p> <p>As reported in our June 2017 Report, there were the following legacy differences from the previous Accounting System:</p> <ul style="list-style-type: none"> — SGD18,461.24 in the Accounts Payable sub-ledger not found in the general ledger, which AHTC has since reconciled; and — A debit balance of SGD241,928.64 in the general ledger Accrued Payables account not found in the sub-ledger. <p>As reported in our July 2017 Report, AHTC has reconciled differences amounting to SGD1,288,169¹² between the Accounts Receivable sub-ledger and the general ledger Accounts Receivable brought forward from</p>	No update as of this Report. Remedial measures in progress.

¹² For S&CC related receivables.

S/N	Root cause	Remediation Plan	Progress	Status
			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.	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. 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 28 February 2017 and is underway for balances to 31 March 2017.	No update as of this Report. Remedial measures in progress.

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	Establish a policy and supporting procedures to govern transfers to the Sinking Fund bank accounts.	Resolved, as reported in our June 2017 Report.	Resolved.

Aljunied-Hougang Town Council

Report on Progress

15 September 2017

S/N	Audit Point	Remediation Plan	Progress	Status
13	delay in transfer to Sinking Fund bank accounts	Identify and rectify erroneous and/or delayed transfers to the Sinking Fund bank accounts.	AHTC is in the process of: <ul style="list-style-type: none"> — compiling a revised worksheet of its past Sinking Fund transfers, along with the supporting documents; and — confirming its calculation of and preparing the file of supporting documentation for the appropriate amount of input GST received from IRAS for Sinking Fund expenditures to be transferred to the Sinking Fund bank accounts. 	No update as of this Report. 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.	No update as of this Report. 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	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	and/or delayed transfers to the 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.	No update as of this Report. Remedial measures subject to testing.

A.3 Governance of related party transactions

Resolved.

A.4 Management of S&CC arrears

S/N	Audit Point	Remediation Plan	Progress	Status
24	Management of S&CC arrears	Configure the Accounting System to generate the S&CC arrears data automatically.	Resolved, as reported in our September 2016 Report.	Resolved.
25		Perform detailed user acceptance testing of the automated extraction of S&CC arrears data, which includes reconciliation with the accounts receivable sub-ledger.	<p>The replacement Accounting System automatically extracts S&CC arrears data, which are then manually inserted into a template for submission to HDB every month.</p> <p>AHTC has corrected the logic for extraction of arrears data and submitted revised S&CC arrears reports from April 2017 to July 2017 to HDB.</p> <p>The logic is now consistent with the basis provided by HDB to AHTC in an email dated 30 August 2017, which clarified MND's requirements for monthly S&CC arrears reporting by Town Councils.</p> <p>Phase two of the Accounting System migration remains incomplete, as described at S/N 9. AHTC has informed us that the Accounts Receivable subledger items that have not been migrated are not required for the monthly S&CC arrears report. Finalisation of the migration is required to test the completeness of the data relied upon in generating the S&CC arrears report.</p>	Resolved.

S/N	Audit Point	Remediation Plan	Progress	Status
26		Establish policies and supporting procedures to govern the maintenance of the master data, including bill codes and user access rights to AHTC's Accounting System.	<p>A <i>User Access Rights Policy</i>, which includes a User Access Rights Matrix, has been established by AHTC for implementation in its replacement Accounting System. AHTC implemented phase one of its replacement Accounting System on 3 January 2017; phase two migration commenced on 1 April 2017.</p> <p>We have reviewed the revised user access rights report for the replacement Accounting System that was provided to us on 31 July 2017 and have no further comments.</p>	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.	No update as of this Report. Remedial measures in progress.
41		Clear items in the temporary clearing accounts.	The process of clearing temporary accounts is ongoing.	No update as of this Report. Remedial measures in progress.



Aljunied-Hougang Town Council
 Report on Progress
 15 September 2017

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 expenditure that should be transferred to the Sinking Fund bank account.	See Appendix A, S/N 13.	No update as of this Report. Remedial measures in progress.
44	Opening balances	Resolve opening balances	AHTC has commenced investigation of the matters raised by its external auditors on the opening balances.	No update as of this Report. 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 40.	No update as of this Report. 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.
21	No formal user guide for S&CC reporting.	AHTC informs us that its <i>User & Technical Manual – Automated Generation of Monthly HDB S&CC Arrears Report</i> , a user guide for generating the S&CC report has been established. See Appendix A, S/N 25.	Resolved.
26	Temporary clearing accounts not investigated and cleared.	See Appendix A, S/N 41.	No update as of this Report. Remedial measures in progress.
32	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.	See Appendix A, S/N 25.	Resolved.
41	No policies or procedures governing the maintenance of master data, including the bill codes, in the Accounting System.	See Appendix A, S/N 26.	Resolved.

Aljunied-Hougang Town Council
 Report on Progress
 15 September 2017

S/N	Control Failure	Progress	Status
42	No detailed user acceptance testing performed prior to the implementation of the automated extraction of S&CC arrears data.	See Appendix A, S/N 25.	Resolved.
43	The S&CC arrears report for March 2016 did not reconcile with the accounts receivable sub-ledger.	See Appendix A, S/N 25.	Resolved.
45	Changes can be made directly to bill codes without formal approval.	See Appendix A, S/N 26. System access to create or amend the charge type ¹³ in the replacement Accounting System is now controlled by a system administrator who is required to grant system access before a user can effect changes to charge type.	Resolved.
46	No audit trail report to facilitate independent review of changes made to master data.	See Appendix A, S/N 26. The replacement Accounting System is able to provide an audit report of changes made to master data.	Resolved.
47	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 Appendix A, S/N 26. The user access rights matrix now contains the necessary detail.	Resolved.
54	Use of four sundry accounts to record unallocated receipts and payments.	See Appendix A, S/N 41.	No update as of this Report. Remedial measures in progress.
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 and 25.	Remedial measures in progress.

¹³ Charge type is equivalent to "bill codes" in the previous Accounting System.



Aljunied-Hougang Town Council
 Report on Progress
 15 September 2017

S/N	Control Failure	Progress	Status
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 informed us that it will perform the necessary reconciliation.	No update as of this Report. 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.
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.	No update as of this Report. Remedial measures in progress.