

ELEVENTH PARLIAMENT OF SINGAPORE

Second Session

FOURTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

Parl. 1 of 2010

Presented to Parliament on

25 May 2010

PUBLIC ACCOUNTS COMMITTEE

Members

Mr Cedric Foo (*Chairman*)

Mr Liang Eng Hwa

Dr Lim Wee Kiak

Ms Denise Phua Lay Peng

Dr Teo Ho Pin

Mrs Josephine Teo

Mr Wee Siew Kim

Mr Zaqy Mohamad

CONTENTS

Page

FOURTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

Queries Pursuant to Auditor-General's Report for FY 08/09 and Ministries' Responses

- Observations on Media Development Authority (MDA) 2-7
- Paying More than Necessary on School Cleaning Contracts 8
- Uneconomical Use of Public Funds on Office Space 9
- Wrongful Certification Resulting in Advance Payment 10

APPENDIX

Minutes of Proceedings 11-13

FOURTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

1 The Committee considered the *Report of the Auditor-General for the Financial Year 2008/09* (Paper Cmd. 4 of 2009).

Audit Observations

2 The Committee noted that a significant portion of lapses reported by the Auditor-General's Office (AGO) is in procurement and contract management. The Auditor-General (AG) in his *Overview* attributed three main factors leading to the significant number of such audit findings:

- (i) Laxity in procurement and contract management;
- (ii) Lack of rigour in scrutiny by approving authorities; and
- (iii) Too light a touch in ministry-statutory board dealings.

3 On the AG's specific findings, the Committee probed into a number of them and sought explanations and views from the ministries involved as well as information on the remedial measures taken to address the lapses found. These are discussed in paragraphs 6 to 58.

Accountability of Statutory Boards

4 The Committee also noted that the AG has, in response to the Committee's 2008 recommendation, completed his review on how the AGO could "widen and deepen" its audit of statutory boards to make its audit more effective. The AG's review report was submitted to the Prime Minister in June 2009.

5 AG informed the Committee that the matter is currently under consideration by the Prime Minister's Office following PMO's consultation with the Ministry of Finance as well as AGO. The recommendations in the report includes putting the AG's mandate to audit statutory boards under one umbrella legislation i.e. the Audit Act so that all statutory boards can be audited within the framework of the Act.

Observations on Media Development Authority (MDA)

6 The Auditor-General reported many lapses on the part of the Media Development Authority (MDA) in the *Report of the Auditor-General for the Financial Year 2008/09*. The Committee is concerned that these lapses taken together reflect poorly on the overall internal controls of the MDA. The Committee therefore, asked the Ministry of Information, Communications and the Arts (MICA) to explain how MDA's overall internal controls can be improved to ensure that public funds are well-managed.

7 The Permanent Secretary of MICA informed the Committee that this was AGO's first review of MDA since its inception 15 years ago¹. MICA has taken AGO's comments as useful feedback for MDA. MDA has taken the following actions to improve its processes:

- (i) The MDA Board will proactively oversee and ensure that MDA has addressed the specific observations.
- (ii) MICA has introduced a scheme to train and second internal auditors to its statutory boards. An internal auditor has been seconded to MDA with effect from 1 April 2010.
- (iii) MICA has tightened the financial authorisation levels for its statutory boards including MDA.
- (iv) MDA will be establishing a Code of Corporate Governance incorporating a formalised Approving Authorities Framework and a Conflict of Interest Policy.

8 The Committee noted the measures taken to improve MDA's overall governance. In view of the number of lapses noted for MDA, the Committee recommends that AGO consider reviewing MDA's governance and controls in two to three years' time. Although AGO's policy is to audit statutory boards at least once in seven years, the Committee recommends more frequent audits for entities where many lapses have been found.

9 The Committee's follow-up on AGO's specific observations and MICA's responses are contained in paragraphs 10 to 43.

Paying more than necessary for outsourcing of enforcement functions

10 MDA entered into a two-year contract (valued at \$933,312) to outsource certain of its enforcement functions to an agent but found out before commencement of the contract that some of the functions

¹ Counting from formation of MDA's predecessor, Singapore Broadcasting Authority (SBA), in 1994

could not be outsourced for legal reasons. However, MDA did not seek a reduction in the contract price for the reduced work scope despite advice by its legal counsel to do so. On expiry of the contract, MDA renewed it for another two years without re-negotiating the price. For the functions that could be carried out by the agent, MDA significantly lowered the performance targets specified in the tender also without seeking a price reduction. Furthermore, MDA did not impose the penalty (amounting to \$308,220) provided for in the contract when the agent failed to meet performance targets.

11 The Committee noted the many lapses in this contract and asked MICA to explain the underlying causes for the lapses in management of the contract and how MDA would ensure that officers act with financial prudence to protect MDA's interests.

12 The Permanent Secretary of MICA explained that since the tender had been awarded and the vendor had committed to deploy the same level of manpower for the reduced work scope, MDA decided not to reduce the price but to redeploy the surplus manpower for the enforcement of household TV licence fees.

13 With regard to MDA not seeking a price reduction after lowering the performance targets in the contract, MDA acknowledged that there were lapses in contract administration. MDA had since sent the officers concerned for procurement certification and had established a procurement governance unit.

14 MDA's Tender Board A ratified the decision not to impose penalties on the vendor for not meeting the "stretched" targets in the previous contract. As regards the renewed contract, the vendor was not able to deliver the agreed targets for 2009 but has submitted a plan to rectify the shortfall in 2010.

15 The Committee noted the improvements MDA proposed to make to the contract administration process. However, with regard to the failure to negotiate price reduction for reduced contract scope, the Committee did not agree that redeployment of vendor's manpower to another enforcement function is a substitute for contract price reduction. This is because payment under the contract for a particular enforcement function was based on performance and not on manpower deployed for the function.

16 Moreover, the Committee noted that lowering the targets after the tender had been awarded was unfair to other tenderers who had quoted based on the targets specified in the tender. With regard to MDA's decision not to impose penalties on the vendor for failing to meet "stretched" targets, the Committee is of the view that targets specified in tender specifications should be what tenderers are expected to achieve.

Undue delay in refunding \$6.06 million in RTV Licence fees

17 As at 31 March 2008, MDA had accumulated \$6.06 million (for 684,552 cases) in overpaid or unused balance of radio and TV (RTV) licence fees that had not been refunded. At the time of AGO's audit in November 2008, MDA was processing refunds that arose in 2005.

18 The Committee asked MICA for the actions taken to clear the backlog of refunds due.

19 Since October 2009, two automated processes have been put in place to increase the efficiency of refunds as follows:

- (i) Offset refunds to outstanding licence fees under the same licensee.
- (ii) Combine refunds for various licences belonging to the same licensee and process the refund as one single transaction.

20 The Permanent Secretary of MICA replied that MDA had since completed making the refunds.

21 The Committee noted the actions taken by MDA to improve the refund process.

Under-collection of \$0.84 million in Broadcasting Licence fees

22 MDA had granted concessionary fees for two broadcast licences due to the pioneering nature of the digital TV service provided. After the concessionary period, MDA did not apply the normal non-concessionary rate, resulting in under-collection of \$844,600 in licence fees.

23 The Committee asked MICA to provide the following information:

- (i) Whether MDA has since collected the fees; and
- (ii) What procedures will be put in place to avoid recurrence of such under-collection.

24 The Permanent Secretary of MICA explained that the following actions have been taken:

- (i) MDA took immediate steps to recover the outstanding fees, but upon the licensee's appeal, CEO of MDA approved the extension of the concessionary fee period (which has the effect of waiving the fees which were not collected).

- (ii) MDA has instituted a procedure to track and ensure compliance with licence conditions, including establishing a database of broadcast licensees and appointing a dedicated licence management officer.

25 The Committee noted the actions taken by MDA.

Compliance with Broadcasting Licence Conditions Not Monitored

26 MDA did not have a comprehensive system for monitoring and enforcing compliance with broadcasting licence conditions. AGO found that two licences were renewed even though the broadcasters had not fulfilled a number of licence conditions. For example, the requirement to submit annual audited accounts was not met. Such audited accounts were required to enable MDA to determine the annual licence fees adjustments.

27 In response to the Committee's queries on this shortcoming, the Permanent Secretary of MICA reported that MDA has enhanced its broadcast licensee standard operating procedure. A draft penalty framework has been formulated and is currently being reviewed by MDA's Regulatory Steering Committee before it is tabled to MICA for consideration. The target completion date for the framework is the first half of 2010.

28 The Committee noted the actions taken by MDA.

Shortcomings in management of Public Service Broadcast (PSB) programmes

29 Public Service Broadcast (PSB) programmes play an important role in communicating national and social messages. These programmes cover genres such as current affairs, culture, information, local sports, minority and children's programmes which may not be commercially viable. Funded PSB programmes are paid for from radio and TV (RTV) licence fees. The Committee noted that RTV licence fees are used as follows:

- Public Service Broadcast (67%)
- Expenses related to RTV licence fee collection (11%)
- Industry development expenses (15%)
- MDA reserves for future PSB and content development funding (7%).

30 AGO observed that MDA did not have a rigorous process to ensure that the programme proposals submitted by MediaCorp clearly manifest the characteristics of PSB programmes identified by MDA. The key performance indicator (KPI) used by MDA to assess the

quality of PSB programmes was also inadequate as it does not assess whether or to what extent the programmes met the characteristics of PSB programmes.

31 The Committee noted that the Acting Minister for MICA, in responding to a question in Parliament on PSB expenditure and performance measures on 15 September 2009 had announced that MDA would be commissioning an independent review of the effectiveness and efficiency of PSB funding and would use the findings to develop meaningful KPIs for PSB programmes.

32 The Committee therefore asked MICA to report on the status of this review (including the scope and target completion date) and the target date for adoption of the new KPIs.

33 The Permanent Secretary of MICA reported that in the immediate term, MICA and MDA had conducted a review of the existing KPIs and had proposed a set of enhanced KPIs which include those that measure whether “PSB programmes have met objectives mapping back to MICA outcomes”. The enhanced KPIs would be adopted from financial year 2010.

34 MICA also informed the Committee that MDA targets to complete the independent policy review of the effectiveness and efficiency of PSB funding and KPIs by the end of 2010.

35 The Committee noted MICA’s response and has asked MICA to provide, in due course, an update on the outcome of the independent policy review of PSB funding and KPIs.

36 The Committee also recommends that MDA publish in their annual report a separate statement showing the collection and use of RTV licence fees (including the accumulated reserves) and the KPIs for Public Service Broadcast.

Lapses in administration of Co-Investment Scheme

37 The Committee noted that for projects under the Scheme for Co-Investment in Exportable Content (SCREEN), MDA would co-invest in production of films and share the rights and revenue of these projects. As at 31 March 2009, MDA had disbursed a total of \$45.57 million for 157 projects but had not collected the revenue due, estimated at \$9.89 million, from 46 completed projects.

38 In response to the Committee’s query, the Permanent Secretary of MICA reported that MDA had since completed a “comprehensive review of MDA’s financial governance and processes for all industry-facing schemes” and established “a set of standard operating procedures and a comprehensive framework for monitoring and

tracking all industry projects”. Moving forward, MDA would also conduct annual reviews of the performance of all schemes, carry out revenue forecasts by project and track the actual revenue collected against the forecasted figures by project and by scheme.

39 The Committee noted the actions taken by MDA.

Lapses in administration of Microfunding Scheme

40 MDA received \$40 million from National Research Foundation in 2007 for the Microfunding Scheme to grow the interactive and digital media sector over a five-year period. The following lapses in the administration of the grant were reported in the AG’s audit report:

- (i) Grants given to four ineligible companies;
- (ii) Conflict of interests in evaluation of applications for funding;
- (iii) Lack of rigour and vigilance in approval for funding; and
- (iv) Laxity in advancing grants to mentors² for subsequent disbursement to start-up companies.

41 The Committee asked MICA to explain how MDA’s governance of the Microfunding Scheme would be improved.

42 The Permanent Secretary of MICA informed the Committee that moving forward, MDA would:

- (i) Ensure full adherence to the agreed funding approval rules, including the need for three independent evaluators;
- (ii) Require declaration of conflict of interest by mentors and external independent experts;
- (iii) Not accept any inputs from experts with declared conflict of interest;
- (iv) Disburse funding in smaller tranches across the project life-cycle; and
- (v) Only disburse the first tranche of funding to new start-ups after approval is given.

43 The Committee noted the actions taken by MDA.

² Mentors are media-industry practitioners, appointed by MDA to identify and recommend promising start-up companies to receive MDA grants. These mentors continue to guide and nurture such start-ups while also disbursing grants to the start-ups.

Paying More than Necessary on School Cleaning Contracts

44 AGO reported that in evaluating a tender for school cleaning contracts, Ministry of Education (MOE) rejected the 11 lowest bids *en bloc* because they were deemed to be below the “market norm” (established by MOE) for such services. MOE deemed the bids to be “unrealistically low” and the bidders unlikely to invest adequately in manpower and other resources to provide reasonably good cleaning services. The contract was valued at about \$158 million (for three years).

45 The Committee noted AGO’s observation that the bids rejected *en bloc* were only 5 to 9 percent below the “market norm” and that four of the 11 rejected bidders were past school cleaning contractors whose services had been assessed by MOE to be satisfactory. MOE could have reviewed these 11 bids more thoroughly to better understand how they intend to perform the contract at their bid price rather than rejecting them outright. There could have been substantial savings if one or more of the lowest 11 bids had been accepted.

46 The Committee asked MOE to explain how it intends to ensure that the principles governing Government procurement, namely transparency, fair and open competition and value for money are upheld in the award of future cleaning contracts.

47 The Permanent Secretary of MOE assured the Committee that MOE had all along evaluated the tenders for school cleaning projects based on these principles. MOE agreed that it could have done better in putting these principles into actual implementation and had since improved its tender evaluation regime with the following enhancements:

- (i) Stating the weighting for individual criterion and the weighted-score ranking method in the tender document for transparency and clarity;
- (ii) Removing “market norm” as a proxy to ascertain the ability of the contractor to deliver the stated level of service. Instead, qualitative factors like volume of work already undertaken by the contractor and feedback on the contractor’s current work will be considered in the tender evaluation.
- (iii) Including the bidders’ track record of compliance with Singapore’s employment laws in recent years as one of the criteria for tender evaluation in order to protect workers’ interest.

48 The Committee noted the actions taken by MOE.

Uneconomical Use of Public Funds on Office Space

49 In June 2008, the Technology Innovation Division (TID) was relocated to Fusionopolis. TID occupied three times the space it previously occupied at SPRING Building even though there was no increase in headcount at that time.

50 The Committee asked the Ministry of Trade and Industry (MTI) for its views on the matter.

51 MTI explained that the move to Fusionopolis was an “interim situation, arising from SPRING’s approach of planning ahead to cater for future increases in headcount”. Over the past 12 months (i.e. in 2009), SPRING had launched many new programmes “to help enterprises overcome the crisis and build capabilities to enhance future competitiveness”. The new programmes cited by MTI are “enhanced SME financing schemes, Special Risk-sharing Initiative (SRI), innovation vouchers, Young Entrepreneurs Scheme and various business capabilities programme such as design, HR and management development”.

52 All these programmes had resulted in an increase in staffing in 2009 by 10 persons (from 14 to 24) in the temporary premises at Fusionopolis. However, the Committee noted that this does not fully explain the need to allocate to TID three times the space it previously occupied at SPRING Building at Bukit Merah.

53 The Committee noted MTI’s assurance that it would monitor the situation closely and ensure that SPRING optimises use of its office space going forward.

Wrongful Certification Resulting in Advance Payment

54 The Ministry of Defence (MINDEF) had certified a consultancy project as completed, and the Study Report as delivered, for the purpose of making full payment of \$289,499 to its consultant, the Defence Science and Technology Agency (DSTA) in March 2008. However, AGO observed that the Report was only a draft and key sections of the Report (namely “Analysis”, “Recommendations” and “Conclusions”) were left blank.

55 In response to the Committee’s questions, the Permanent Secretary of MINDEF said that the deliverable stated in the contract was a Study Report on the next generation desktop computers to be deployed in MINDEF and the ultimate value of the project was the technical inputs provided by DSTA that facilitated MINDEF to make a decision on an appropriate Operating System to be deployed on its next generation of desktop computers.

56 The Committee asked MINDEF whether it was right to have certified that the Study Report had been delivered and the project completed when the Report was in fact a draft with key sections left blank.

57 MINDEF said that the officer who certified payment had “acted in good faith that the substantive part of the study had been completed”. The Study Report was “simply the re-writing of the results from the technical reports in a format suitable for subsequent submission to management forums for discussion”. The approving officer was also satisfied that DSTA had completed the technical work required under the project.

58 Noting that the report certified as delivered was not a complete report and the complete report was delivered only five months after payment was made, the Committee would like to emphasise that the certification of goods received or services rendered before payment is an important internal control. If the substance of the contract has been delivered but not in the form specified in the contract, for proper control, payment is warranted only if (i) there is an explicit statement that the deliverable specified in the contract was not received and the reason why, despite this, payment should be made; and (ii) the approving authority is satisfied that the substance of the contract for which payment is sought has been delivered.

MINUTES OF PROCEEDINGS

11th Meeting

Tuesday, 10th November 2009

10.30 a.m.

PRESENT:

Mr Cedric Foo Chee Keng (*in the Chair*)
Dr Lim Wee Kiak
Ms Denise Phua Lay Peng
Dr Teo Ho Pin
Mrs Josephine Teo

1. The Committee considered the Report of the Auditor-General for the Financial Year 2006/07 (Paper Comd. 4 of 2007).
2. The Committee examined findings contained in the Auditor-General's report and agreed to write to the Ministry of Education, Ministry of Information, Communication and the Arts, Ministry of Defence and Ministry of Trade and Industry to submit memoranda on matters raised.
3. The Committee further deliberated.

Adjourned to a date to be fixed.

12th Meeting

Tuesday, 30th March 2010
10.30 a.m.

PRESENT:

Mr Cedric Foo Chee Keng (*in the Chair*)
Mr Liang Eng Hwa
Dr Lim Wee Kiak
Ms Denise Phua Lay Peng
Dr Teo Ho Pin
Mrs Josephine Teo
Mr Wee Siew Kim
Mr Zaqy Mohamad

1. The Committee deliberated.
2. The Committee considered the memoranda received from: Ministry of Education, Ministry of Information, Communication and the Arts, Ministry of Defence and Ministry of Trade and Industry.
3. The Committee agreed to write to the Ministry of Information, Communication and the Arts to submit a memorandum on matters raised
4. The Committee further deliberated.

Adjourned to a date to be fixed.

13th Meeting

Tuesday, 11th May 2010
10.30 a.m.

PRESENT:

Mr Cedric Foo Chee Keng (*in the Chair*)
Dr Lim Wee Kiak
Ms Denise Phua Lay Peng
Mr Liang Eng Hwa
Mr Zaqy Mohamad

1. The Committee deliberated.
2. The Committee considered the memorandum received from the Ministry of Information, Communication and the Arts.
3. The Chairman's draft report brought up and read for the 1st time.
4. Resolved, "That the Chairman's report be read a second time, paragraph by paragraph."
5. Paragraphs 1 to 58 inclusive read and agreed to.
6. Resolved, "That this report be the Report of the Committee to Parliament."
7. Agreed that the Chairman do present the Report to Parliament when printed copies are available for distribution to Members.

Adjourned *sine die*.