

TENTH PARLIAMENT OF SINGAPORE

First Session

SECOND REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

Parl. 2 of 2004

Presented to Parliament:

6 February 2004

PUBLIC ACCOUNTS COMMITTEE

Members

Mrs Lim Hwee Hua (*Chairman*)

Mr Chay Wai Chuen

Mr Charles Chong

Mr Gan Kim Yong

Mr Hawazi Daipi

Mr Inderjit Singh

Mr Leong Horn Kee

Mr Wee Siew Kim

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SECOND REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

The Public Accounts Committee appointed pursuant to Standing Order No. 96(2) has agreed to the following report:-

1 The Committee considered the Government's *Financial Statements for the Financial Year 2002/2003* [Paper Cmd. 7 of 2003] and the *Report of the Auditor-General for the Financial Year 2002/2003* [Paper Cmd. 8 of 2003].

2 Other submissions considered were:

- Audited financial statements and audit reports of statutory boards presented to Parliament, as required by the Acts of the respective statutory boards;
- Ministry of Finance paper on Applicability of National Accounting Standards for Statutory Boards;
- Audit observations raised on statutory boards audited by commercial auditors;
- Paper on Audit Committees and Internal Audit of Statutory Boards;
- Paper on the Appointment of Commercial Auditors for Statutory Boards;
- Paper from the Ministry of Finance comparing FY2002/03 revenue and expenditure of the Government against budget and against FY2001/02 revenue and expenditure;
- Responses of various ministries and statutory boards to queries raised by the Committee;
- Returns from statutory boards audited by commercial auditors on their deposit accounts.

Auditor-General's Observations on Government Ministries and Statutory Boards

3 The Committee noted that most of the observations in the *Report of the Auditor-General for the Financial Year 2002/2003*, which affect 14 ministries, an organ of state and five statutory boards, relate to:

- Loss or potential loss of public money;
- Delays in refunding deposits and making payments;
- Irregular claims in the Ministry of Defence (MINDEF).

Loss or Potential Loss of Public Money

4 The Committee noted that the reported cases of overpayments, non-collection of revenue and non-recovery of advances would have cost the Government over \$9 million.

5 The Ministry of Manpower failed to collect over \$6 million from insurance bonds when it forfeited the security deposits secured by these bonds. To ensure that such a failure does not recur, the Committee recommends that the Ministry institute a screening mechanism to debar insurance bonds issued by companies which fail to honour commitments under previously issued bonds or which fail some form of credit-worthiness test.

6 MINDEF over-credited \$641,000 to the retirement accounts of 475 staff and paid \$23,000 for staff benefits which the staff were not entitled to. On the over-crediting to the retirement accounts of MINDEF staff, the Committee urged that the user acceptance tests be carried out before a new system is launched and the tests should be comprehensive. The Committee also recommends that for new systems with significant financial implications, a post-implementation review be carried out within six months of implementation to confirm that user requirements have been fully tested and met. In this regard, MINDEF need to set the criteria to define the systems for which post-implementation review is required.

7. As for the Ministry of Law, it was not even aware that some \$640,000 in rental from eight Government properties had not been collected for more than five years. The Subordinate Courts did not forfeit bail totalling \$150,000 which the courts had ordered to be forfeited. The Supreme Court paid a sum of \$33,000 twice for the same purchase.

8 In other cases, the Ministry of Information and the Arts did not realise that it had disbursed \$300,000 more in grants than intended whilst the Ministry of Health overpaid \$311,000 in subventions. The Ministry of National Development failed to collect \$110,000 in security deposits that it could otherwise have used to cover rental arrears.

9 When the Ministry of Education terminated a contract for certain services, it did not recover \$108,000 which had been paid in advance. The Ministry of Community Development and Sports, Ministry of Finance and the Ministry of the Environment wrongly credited a total of \$24,000 in Government revenues to a deposit account. In addition, the Ministry of Community Development and Sports left a \$2 million advance to a statutory board which remained unused for one and a half years – of which \$1 million was subsequently returned to the Ministry.

10 The Committee would like to reiterate the recommendation in its previous report presented to Parliament on 26 December 2002 [Parl. 5 of 2002] that more stringent internal controls must be put in place to prevent such losses or potential losses of public moneys from recurring. The Committee would also like to remind Permanent Secretaries of their responsibility as Accounting Officers to ensure proper procedures are in place to safeguard Government moneys and to avoid laxity in dealing with financial matters.

11 The Committee believes that an effective internal audit function can do much to enhance the checks and balances within a ministry. In this regard, the Committee recalled an earlier report of the Committee, presented to Parliament on 28 March 2001 [Parl. 2 of 2001], where the Committee recorded its support of the circular issued by the Accountant-General's Department urging ministries that do not already have an internal audit function to set up one "*to make sure that departments adhere to proper financial procedures*". The Committee will ask the Ministry of Finance to submit an update of the state of the internal audit function in ministries and to comment on the adequacy of such functions.

Delays in Refunding Deposits & Making Payments

12 Ministries, departments and statutory boards collect deposits for various purposes, for example, as security for contract performance, as a way of ensuring compliance with conditions for the issue of licences and permits, or as surety for court attendance.

13 In its last report [Parl. 5 of 2002], the Committee expressed concern over cases of deposits which Government ministries had not refunded within reasonable time. Apart from the duty owed to depositors to safeguard the money held in trust and to make prompt refunds when no longer required, the Committee is concerned that such moneys in deposit accounts may also unwittingly provide opportunities for fraud.

14 The Committee noted that more cases of long outstanding deposits have surfaced in ten ministries, the Supreme and Subordinate Courts, and the Maritime and Port Authority of Singapore. In all, a total of \$3.1 million in deposits that should have been refunded were found not to have been returned. Of this amount, over \$1.0 million could not be refunded because the seven ministries concerned did not know to whom they owed the money.

15 Beside being slow in refunding deposits no longer required, the Committee also noted three instances where the Government had been slow in making payment.

16 The Ministry of Education took four months or more to pay 1,067 invoices totalling \$1.6 million when the typical Government payment terms to suppliers is 30 days. Fifty-seven of these invoices were paid only after more than one year.

17 The Ministry of Manpower was found to have delayed the payment of workmen's compensation to seven cases by between four and 13 months. Delays of such payments would only add to the hardship of injured workmen, or in fatal cases, their dependants.

18 At MINDEF 529 medical claims by full-time national servicemen, regulars and non-uniformed personnel were not reimbursed for six months or more.

19 The Committee noted that whilst the Government was reputed to be a very efficient revenue collector, this stringent standard was not applied to the \$3.1 million of deposits no longer required and for the other three instances of late payments mentioned above.

20 Ministries and statutory boards should be mindful that moneys due for refund should be paid out as speedily as possible so as to maintain public trust and accountability to the public and to portray the civil service as efficient and fair in its dealings with the public. As the problem is fairly widespread, the Committee recommends that the Ministry of Finance spearhead the effort to review and simplify the refund and payment processes to prevent delays and submit a progress report to the Committee in six months' time. Among other things, ministries and statutory boards should assess whether there could be an automatic trigger point for the refund of deposits. For example, whether cash bail can be credited directly to the bank account of the bailor as soon as possible after the case is concluded and there is no court ruling to forfeit the posted bail.

Irregular Claims in MINDEF

21 The irregular medical claims were not the first time that over-claims and other losses were found in MINDEF. In the previous year, pilferage of duty-free liquor was reported. Reported in the same year was the over-consumption of leave and over-claims of subsistence allowance by a serviceman, due according to MINDEF to “*misinterpretations of the guidelines*”. Two years ago, at least \$14,000 in a Mess Fund could not be accounted for. MINDEF attributed it to “*lapses in accounting management*” and “*took recovery actions*”. In the year before that, at least \$100,000 from two accounts could not be accounted for and an officer admitted to misappropriation. Losses from such irregularities in MINDEF have been reported for four years in a row.

22 Although the aggregate monetary loss from the intentional splitting of receipts and other improper medical claims may not be significant, the Committee views the irregular claims in MINDEF with concern.

23 The Committee noted MINDEF’s commitment to “*continue to take dishonest personnel to task and strengthen our internal controls to minimise systemic weaknesses*”. Nonetheless, the Committee emphasised that “non-systemic” failures also warranted close attention if they occur repeatedly from year to year or if they are prevalent in particular activities.

Timeliness in Presenting Annual Financial Statements and Annual Reports of Statutory Boards to Parliament

24 The Committee noted that since the late seventies, as part of the accountability process to Parliament, statutory boards were urged by the Committee to present their annual reports together with their financial statements to Parliament within six months of the end of their financial year. This is to ensure there could be timely scrutiny of their accounts and performance by Parliament and by the Committee.

25 The Committee is concerned that of late, many statutory boards are tardy in presenting their annual reports and financial statements to Parliament within the requisite six-month time-frame. For the Financial Year 2002/03, only eight boards presented their annual reports and financial statements to Parliament on time. As at 31 December 2003, another 25 boards had presented their annual reports, albeit six months or more after their financial years had ended. These boards are listed in Appendix 1. The remaining 14 boards (listed below) have yet to present their reports and accounts to Parliament, more than 9 months after the end of their financial years.

- Agency for Science, Technology and Research;
- Civil Service College;
- Commercial & Industrial Security Corporation;
- Health Promotion Board;
- Media Development Authority;
- Nanyang Technological University;
- National Heritage Board;
- National University of Singapore;
- Ngee Ann Polytechnic;
- People's Association;
- Singapore Polytechnic;
- Singapore Sports Council;
- Singapore Tourism Board;
- Temasek Polytechnic.

26 In line with good governance practices, the Committee recommends that the boards concerned take steps to ensure that the six-month deadline is adhered to. Supervising ministries should ensure that the boards comply with this requirement.

Compliance with Financial Reporting Standards by Statutory Boards

27 The accounts of statutory boards had generally been prepared in accordance with the Statements of Accounting Standards issued by the Institute of Certified Public Accountants of Singapore, and guidelines issued by the Ministry of Finance in 1989. On 1 January 2003, the Statements of Accounting Standards were replaced by Financial Reporting Standards issued by the Council on Corporate Disclosure and Governance for compliance by companies registered under the Companies Act.

28 On 6 May 2003, the Committee met the Permanent Secretary of the Ministry of Finance and his officials to enquire about the accounting standards that will govern the accounts of statutory boards.

29 The Committee noted that the Ministry of Finance has since issued a circular on 31 October 2003 requiring statutory boards to adopt fully the Financial Reporting Standards as the accounting standards, except for the treatment of Government Grants, for their financial year 2003 accounts onwards. Statutory boards in receipt of capital grants may continue to treat capital grants as Deferred Capital Grants, and amortise the grants annually to match the annual depreciation expense of the assets funded via the capital grants. The Ministry of Finance has also prescribed additional accounting and disclosure requirements related to funds, grants, accumulated surplus and reserves, and the signing of accounts.

Statutory Boards audited by Commercial Auditing Firms

30 The Committee noted that besides the statutory boards audited by the Auditor-General, there are other boards that are audited by commercial auditing firms. As the observations raised by these auditors were not included in the Report of the Auditor-General and would not have come to the cognizance of the Committee, the Committee requested for the observations for the Financial Year 2001/02.

31 Based on the returns submitted by 39 boards not audited by the Auditor-General, the Committee noted that the most common observations were the following:

- Inadequacy of controls and procedures;
- Non-compliance with controls and procedures;
- Weaknesses in computer security and controls.

32 Of the three observations, weaknesses in computer security and controls made up a significant proportion of the total number of observations. As most statutory boards are extensively computerised, the Committee is concerned with this finding. The Committee recommends that the boards prioritise their attention to improving this area of control as the impact of computer lapses can be very serious.

33 The Committee has also requested the boards to instruct the commercial auditing firms to submit to the Committee, at the end of each audit, copies of their management letters. The letters should be accompanied with summary reports focussing on exceptions, for example, where there are fraud and irregularities, or where there are disagreements between the board and the auditor, or where the board is slow in implementing audit recommendations.

34 In addition to looking at the observations raised by the commercial auditors of statutory boards not audited by the Auditor-General, the Committee also inquired into whether these boards are tardy in refunding deposits owed to the public. A Sub-Committee was formed to evaluate returns from the boards.

35 The Sub-Committee reported that, based on the unaudited returns from the boards, there was an aggregate \$3.9 million refundable deposits in 24 statutory boards as at 31 March 2003. With most boards, there appears to be no obvious problems in administering the refundable deposits. However, one board, the Jurong Town Corporation, has 243 cases (amounting to \$892,080) of refundable deposits held for more than a year. In the case of the Nanyang

Technological University (NTU), the refundable deposits amounted to \$429,898 (53 cases).

36 The Committee noted that since then, the JTC had refunded 35 deposits (totalling \$320,852), out of the 243 cases, to the depositors. The NTU had also refunded all except nine cases, which were being acted on. The Committee wishes to reiterate that boards should not hold on to the deposits longer than necessary as it would not be fair to the public and would also unwittingly provide opportunities for fraud and abuse. The Committee urges all the boards to implement procedures, if these have not already been done, to ensure that such deposits are refunded promptly to the public when they are no longer needed.

37 In view of the observations made, it is recommended that statutory boards audited by commercial auditors be requested to send in returns to the Auditor-General's Office for the next three years on the profile of the refunds of outstanding deposits.

38 The Committee also recommends that statutory boards that have been audited over a considerable period of time by commercial auditors be rotated back for audit by the Auditor-General's Office. This would enable the boards to receive detailed scrutiny by the Auditor-General's Office.

Audit Committees and Internal Audit of Statutory Boards

39 As part of the review of statutory boards audited by commercial firms, the Committee enquired whether the boards have internal audit units or audit committees and to whom they report their findings.

40 Based on the information given by the 39 statutory boards, the Committee noted that 22 boards had both internal audit and audit committee functions. Of the remaining statutory boards, five had only internal audit functions, six had only audit committee functions and another six had neither function.

41 Of the 27 statutory boards with internal audit units, the Committee noted that in terms of accountability, the internal audit units of 10 statutory boards reported their findings to management directly instead of the audit committee.

42 The Committee views the presence of an internal audit unit reporting to a body independent of management, like the audit committee, as one of the principles of good corporate governance.

43 The Committee recommends that the statutory boards with extensive operational activities consider setting up the internal audit units and audit committees with members independent of the management to enhance their corporate governance process. The Committee is also of the view that internal audit units should report directly to the audit committee instead of management to ensure independence and accountability.

Appointment of Commercial Auditors for Statutory Boards

44 Currently, most statutory boards are required by law to have their accounts “audited by the Auditor-General or by an auditor appointed annually by the Minister in consultation with the Auditor-General”. In view of the manpower constraints at the Auditor-General’s Office, some of the statutory boards are audited in rotation by commercial accounting firms and by the Auditor-General’s Office. Where the Auditor-General is not the auditor, and he is consulted by the Minister on the appointment of a commercial accounting firm for the statutory board, he will not object to the Minister’s choice if the following criteria are met:

- (i) every partner of the proposed accounting firm is an “approved company auditor” under the Companies Act (Cap.50, 1994 Revised Edition);
- (ii) none of the partners or ex-partners whilst in practice with the accounting firm had been suspended from practice or had his registration cancelled by the Public Accountants Board under section 34 of the Accountants Act (Cap.2, 2001 Revised Edition);
- (iii) none of the partners or ex-partners whilst in practice with the accounting firm during the past five years, had been inflicted with a penalty, fine or censure by the Public Accountants Board under section 34 of the Accountants Act; and
- (iv) the proposed accounting firm has not already been the auditor of the board for the past five consecutive years.

Criteria (i), (ii) and (iii) aim to ensure that the accounting firm is suitably qualified and that its partners have not been found guilty of serious professional misconduct by the Public Accountants Board which, under the Accountants Act, is the authority for the registration and discipline of public accountants. Criterion (iv) provides for the rotation of auditors.

45 The Committee is of the view that all the four criteria are useful in helping the Auditor-General advise the Minister on the selection of the auditor for a statutory board. The Committee noted, in particular, that under criterion (ii), an audit firm will not be considered eligible to audit a statutory board if its partner or ex- partners had been suspended from practice or deregistered by the Public Accountant's Board under Section 34 of the Accountants Act. The underlying philosophy of this is that where there is an audit failure, it is the firm, rather than the individual partner, which should be held accountable. The Committee agrees with this philosophy as audit methodologies and procedures are dictated by the firm rather than the individual partners, and most audit failures could be traced to the inadequacies in the firm's methodologies and practices. The criterion helps to ensure that only firms having audit methodologies which are professionally sound and which are not tainted by audit failures are recommended.

46 To facilitate implementation of this criterion, however, the Committee recommends that it be made clearer with the period of debarment specified. The Committee recommends a period of up to 10 years with a review at the end of five.

STATUTORY BOARDS WHICH PRESENTED THEIR ANNUAL REPORTS WITHIN 6 MONTHS OF THE FINANCIAL YEAR END

1. Civil Aviation Authority of Singapore
2. Inland Revenue Authority of Singapore
3. Jurong Town Corporation
4. Monetary Authority of Singapore
5. National Arts Council
6. National Library Board
7. Public Utilities Board
8. Singapore Totalisator Board

STATUTORY BOARDS WHICH PRESENTED THEIR ANNUAL REPORTS AFTER 6 MONTHS OF THE FINANCIAL YEAR END (AS AT 31 DEC 2003)

1. Agri-Food & Veterinary Authority of Singapore
2. Building and Construction Authority
3. Central Provident Fund Board
4. Economic Development Board
5. Energy Market Authority
6. Health Sciences Authority

7. Housing and Development Board *
8. Infocomm Development Authority of Singapore
9. Institute of Southeast Asian Studies
10. Institute of Technical Education
11. Intellectual Property Office of Singapore
12. International Enterprise Singapore
13. Land Transport Authority
14. Maritime and Port Authority of Singapore
15. Nanyang Polytechnic
16. National Environment Agency
17. National Parks Board
18. Preservation of Monuments Board
19. Public Transport Council
20. Science Centre Board
21. Sentosa Development Corporation
22. Singapore Corporation of Rehabilitative Enterprise
23. Singapore Land Authority
24. Standards, Productivity and Innovation Board
25. Urban Redevelopment Authority

* The financial statements of HDB for FY2002/2003 were presented to Parliament on 10 June but not the annual report.

MINUTES OF PROCEEDINGS

5th Meeting

Tuesday, 6th May 2003

11.00 am

PRESENT:

Mrs Lim Hwee Hua (*in the Chair*)
Mr Charles Chong
Mr Chay Wai Chuen
Mr Gan Kim Yong
Mr Hawazi Daipi
Mr Leong Horn Kee
Mr Wee Siew Kim

ABSENT:

Mr Inderjit Singh

1. The Committee deliberated.
2. Mr Lim Siong Guan, Permanent Secretary, Mr Derek How Beng Tiong, Deputy Director (Resource Accounts), Mr Loh Khum Yean, Deputy Secretary (Administration), of the Ministry of Finance, and Ms Chua Geok Wah, Accountant-General were examined on the accounting standards for statutory boards.
3. The Committee considered the reports from members on their review of statutory boards whose accounts were audited by commercial auditing firms.
4. The Committee further deliberated.

Adjourned to a date to be fixed.

6th Meeting

Tuesday, 19th August 2003

11.30 am

PRESENT:

Mrs Lim Hwee Hua (*in the Chair*)
Mr Charles Chong
Mr Gan Kim Yong
Mr Hawazi Daipi
Mr Inderjit Singh
Mr Wee Siew Kim

ABSENT:

Mr Chay Wai Chuen
Mr Leong Horn Kee

1. The Committee considered the Government's *Financial Statement for the Financial Year 2002/2003* [Paper Cmd. 7 of 2003] and the *Report of the Auditor-General for the Financial Year 2002/2003* [Paper Cmd 8 of 2003].

2. The Committee examined the findings in the Auditor-General's report and agreed to write to the Permanent Secretaries of the Ministry of Defence, Ministry of Finance, Ministry of Manpower, Ministry of Law and Ministry of Home Affairs to submit memoranda on matters raised.

3. The Committee considered the responses received from the Ministry of Finance, Ministry of Health, Ministry of Education, Ministry of Transport, Ministry of Home Affairs, Ministry of Defence and the Ministry of Community Development and Sports on matters arising in the Committee's Report [Parl. 5 of 2002].

4. The Committee further deliberated.

Adjourned to a date to be fixed.

7th Meeting

Tuesday, 2nd December 2003

11.30 am

PRESENT

Mrs Lim Hwee Hua (*in the Chair*)
Mr Charles Chong
Mr Gan Kim Yong
Mr Hawazi Daipi
Mr Wee Siew Kim

ABSENT:

Mr Chay Wai Chuen
Mr Inderjit Singh
Mr Leong Horn Kee

1. The Committee deliberated the report of the Sub-Committee set up to review the procedure on refundable deposits held by statutory boards whose accounts were not audited by the Auditor-General. The Committee accepted the Sub-Committee's findings.

2. The Committee examined the memoranda received from the Ministry of Finance, Ministry of Defence, Ministry of Manpower, Ministry of Law and Ministry of Transport.

3. The Committee deliberated over other memoranda from the Permanent Secretary, Ministry of Finance.

4. The Committee further deliberated.

Adjourned to a date to be fixed.

8th Meeting

Tuesday, 20th January 2004

11.00 am

PRESENT:

Mrs Lim Hwee Hua (*in the Chair*)

Mr Charles Chong

Mr Gan Kim Yong

Mr Hawazi Daipi

Mr Inderjit Singh

Mr Leong Horn Kee

Mr Wee Siew Kim

ABSENT:

Mr Chay Wai Chuen

1. The Committee deliberated.
2. The Committee considered the responses received from the Ministry of Finance, Ministry of Manpower, Ministry of Education, Ministry of Law, and Ministry of Trade and Industry.
3. The Committee further deliberated.

Report

4. The Chairman's draft report brought up and read the first time.
5. Resolved, "That the Chairman's report be read a second time, paragraph by paragraph."

Paragraphs 1 to 46 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 upon printed copies thereof being available for distribution to Members of Parliament.

Adjourned sine die.
