

**ELEVENTH PARLIAMENT OF SINGAPORE**

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**First Session**

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**REPORT OF THE PUBLIC ACCOUNTS COMMITTEE**

**Parl. 2 of 2007**

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**Presented to Parliament:**

**24 May 2007**

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## **PUBLIC ACCOUNTS COMMITTEE**

### **Members**

Mr Cedric Foo Chee Keng (*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

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## CONTENTS

*Page*

### **REPORT OF THE PUBLIC ACCOUNTS COMMITTEE**

<i>Procurement Irregularities</i>	1
<i>Inaccurate Records of State Land and Buildings</i>	2
<i>Unfair Payment Practices and Wrong Information in the Government Accounting System</i>	3
<i>Circumvention of Internal Controls</i>	4
<i>Weak Access Controls in Computer Systems</i>	4
<i>Deficiencies in Land Sales Procedures and Accounting Controls</i>	5
<i>Lapses in Governance Structure and Financial Operations</i>	6

### **APPENDIX**

<i>Minutes of Proceedings</i>	7-9
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## **REPORT OF THE PUBLIC ACCOUNTS COMMITTEE**

The Public Accounts Committee appointed pursuant to Standing Order No. 100 (2) has agreed to the following report:–

1 The Committee considered the Government's *Financial Statements for the Financial Year 2005/2006* (Paper Cmd. 8 of 2006) and the *Report of the Auditor-General for the Financial Year 2005/06* (Paper Cmd. 7 of 2006).

2 The Committee noted that the *Report of the Auditor-General for the Financial Year 2005/06* (Paper Cmd. 7 of 2006) contained 20 audit observations on Government ministries and 19 audit observations on statutory boards. These observations included:

- procurement irregularities;
- inaccurate records of State land and buildings;
- unfair payment practices and wrong information in the Government accounting system;
- circumvention of internal controls;
- weak access controls in computer systems;
- deficiencies in land sales procedures and accounting controls; and
- lapses in governance structure and financial operations.

3 In the course of its inquiry into the audit observations, the Committee sought written explanations from the ministries and statutory boards concerned and enquired into the remedial actions taken.

### **Procurement Irregularities**

4 The Committee noted from the *Report of the Auditor-General for the financial year 2005/06* that MINDEF convened an investigation after the Auditor-General found evidence of conflicts of interest in the award of three contracts for renovation works for overseas offices of MINDEF. The Committee enquired into the outcome of the investigation, the root causes of the irregularities and the measures taken to prevent their recurrence.

5 In a written memorandum, the Permanent Secretary informed the Committee that MINDEF's investigation found that the three companies awarded the renovation contracts were linked to the firm that had been engaged as consultant for the renovation project. Nevertheless, an independent surveyor engaged by MINDEF's Investigation Board concluded that the price paid for the renovation works was within the mid-range of prices for the specified works.

6 The Committee was informed that MINDEF attributed the lapses to the “personal failure” of its Finance Officer for one of the contracts and “personal negligence” of its Logistics Officer for the other two. The officers were charged and fined \$1,000 and \$5,000 respectively.

7 The Committee was assured that MINDEF has taken measures to prevent such conflicts of interest in its future procurement processes including naming the project consultants in its tender invitations, requiring tenderers to declare any relationship with the consultants and requiring the consultants to declare whether they have an interest in the companies participating in the tenders.

8 To ensure that the measures are effective, the Committee recommends that MINDEF’s internal audit should monitor compliance with the new procedures and report any conflicts of interest to MINDEF’s Audit Committee.

### **Inaccurate Records of State Land and Buildings**

9 Successive Public Accounts Committees have addressed the problem of unreliable records of land and buildings. This issue became a prime concern when the constitutional provisions to protect Government reserves came into force in November 1991. It was only in 2001 that the Committee was informed that *“By putting in the necessary resources and working closely with the various ministries and other public agencies, SLA<sup>1</sup> had managed to compile and submit its first complete State Land and Building listing to . . . the President in June 2001”* (Parl. 6 of 1998). One of the measures put in place to keep the records of Government land and buildings accurate and up-to-date was the annual check and certification by Permanent Secretaries of the listings of land and buildings under their charge.

10 The Committee was concerned that the Auditor-General had found the certification of the land and buildings by the Permanent Secretary of the Ministry of Law to be inaccurate. In particular, the Committee questioned whether the inaccuracy was an indication that the reliability of the records had been compromised.

11 In a memorandum submitted to the Committee, the Ministry of Law explained that the omission of a land parcel from the certified listing was due to human error by two officers of the Singapore Land Authority (SLA). The first officer had accepted the return of the land parcel by another Ministry but failed to raise the forms required to update the land records. Subsequently, the Ministry that returned the land informed the SLA that the record incorrectly showed that the land was still under its charge. This led to the second mistake when an officer

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<sup>1</sup> SLA refers to the Singapore Land Authority which is the Government’s agent for the management of State land and buildings.

of the SLA deleted the record from the returning Ministry but failed to add it to the record of the receiving Ministry.

12 The Committee was advised that the Permanent Secretary of the Ministry of Law had met with the Chief Executive of the SLA and the Commissioner of Lands to review and improve the relevant operating procedures of the SLA. According to the Ministry, the Government land and buildings record had been converted from a spreadsheet system to a new computerised system that captured all land and buildings spatially such that a land parcel could not be removed from the charge of one ministry without designating it to another ministry. With such a system, the likelihood of similar lapses would be extremely low.

13 The Committee is pleased with the measures taken and reiterates the importance of keeping the record of Government land and buildings accurate and up-to-date if it is to remain useful for the protection of Government reserves. The Committee considers that the Ministry of Law, as the lead agency for Government land and building matters, should regularly review the system and procedures to ensure that the records are complete and accurate.

### **Unfair Payment Practice and Wrong Information in Government Accounting System**

14 The *Report of the Auditor-General for the financial year 2005/06* observed that officials in the Ministry of Information, Communications and the Arts had requested that suppliers alter the dates or credit terms on invoices, apparently to conceal late payments. In these instances, false information was recorded in the accounting system. Although the cases reported might not be significant in monetary terms, the Committee took a very serious view of this issue because it casts doubt on the integrity of the public service and the reliability of the Government's financial information.

15 The Committee would like to reiterate its stand in its report presented to Parliament on 15 June 2005 [Parl. 1 of 2005] that payments due to suppliers should be paid promptly after the satisfactory delivery of goods and services, so as to portray the civil service as efficient and fair in its business dealings. In this regard, the Committee noted the response from the Ministry that the seven cases reported by the Auditor-General were isolated cases from one project managed by a new department of the Ministry and that there was no malicious intent to conceal late payment. The Ministry assured the Committee that the cases were due to human lapses and the officers concerned were given warning letters or counselled on their wrong doing. The Ministry agreed with the Committee on the importance of reliable Government financial information and outlined the improvements made to its financial guidelines and practices to implement the recommendations of a task force formed to institutionalise proper payment procedures in the Ministry.

16 The Committee is encouraged by the remedial measures taken by the Ministry to prevent recurrence of such lapses and recommends that the Ministry's internal audit unit conduct regular checks to ensure that preventive measures are effectively implemented and complied with.

### **Circumvention of Internal Controls**

17 The Committee noted that an overseas mission of the Ministry of Foreign Affairs circumvented the dual control on cheque payments by having cheques pre-signed when its cheque signatories were on home leave to Singapore. The Committee was concerned whether the circumventing of controls was pervasive in overseas missions. Being away from the Ministry headquarters, these missions would have an increased risk of fraudulent payments.

18 The Permanent Secretary informed the Committee that the Ministry's Audit Committee, which he chairs, took a serious view of the mission's practice of circumventing internal controls and reprimanded the head of the mission. A circular was issued to all heads of mission to emphasise that cheques must not be pre-signed. The Ministry has also issued guidelines to all overseas missions on the appointment of bank authorising officers and cheque signatories so that the controls need not be by-passed for expediency when one cheque signatory is away from the mission.

19 The Committee was reassured by the measures taken by the Ministry and urges the internal audit unit of the Ministry to check that the new guidelines are implemented effectively.

### **Weak Access Controls in Computer Systems**

20 The Committee noted that weak access controls in computer systems appeared to be a prevalent problem. In the *Report of the Auditor-General for the financial year 2005/06*, seven agencies were reported to have this problem, viz. the Singapore Customs, Accounting and Corporate Regulatory Authority, Inland Revenue Authority of Singapore, Health Sciences Authority, Infocomm Development Authority of Singapore, National Parks Board and Sentosa Development Corporation.

21 As computer systems are an integral part of the basic infrastructure supporting public sector operations, the importance of computer security cannot be over emphasized. Access control is a critical first-line defence against unauthorised access to computer systems.

22 The Committee therefore recommends that appropriate central agencies like the Ministry of Finance or the Infocomm Development Authority of Singapore take action to further instill computer security consciousness in ministries and statutory boards, and that the internal audit unit of every ministry and statutory board carry out regular checks to ensure that access controls are complied with by all relevant personnel.

### **Deficiencies in Land Sales Procedures and Accounting Controls**

23 The Committee was concerned about the observations made by the Auditor-General on the procedures for land sales and the lapses in the systems for payroll, computer access and grant accounting of the Sentosa Development Corporation (SDC). In particular, the instances of deficiencies in the land sales procedures, a departure from the normal government procedures would cause the public to view the land sales as not being transparent, fair and competitive. The Committee sought further explanation as to how these lapses came about and the measures taken by the SDC to prevent their recurrence. The Ministry of Trade and Industry informed the Committee that besides the usual tender and auction processes, there are two modes of land sales viz. Expression of Interest (EOI) and Private Treaty. The Committee was informed that procedures have been put in place to ensure that the two modes of sale comply with the principles of fairness and transparency. The sales of sites are widely publicised so as to reach the widest pool of potential buyers. Details of the sites and the award criteria are not released until the sites are launched for sale. In respect of the EOI mode of sale, the Ministry stated that price is the only criterion and an award is made to the highest bidder. For certain strategic sites, developers are also required to submit their proposed concept and the best overall proposal will be accepted. This is similar to the two-envelope system adopted for sales of certain Government sites. In respect of the Private Treaty mode of sale, the Ministry stated that a list price which is higher than the reference market price is set for every land parcel for sale and displayed for the information of all interested prospects. If demand is strong, SDC will adjust the list price upwards. The approving authority for private treaty sales is Sentosa Cove Pte. Ltd.

24 As regards allowing ex-directors to participate in the land sales, the Ministry informed the Committee that SDC had put in place a set of governance measures since October 2003 to ensure transparency and competition. These include requiring all board members to provide a confidentiality undertaking on all privileged information pertaining to Sentosa Cove and the land sales, and to declare their interest if they intend to participate in the sale of sites. Board members participating in sale of sites will not participate in the evaluation of tenders. SDC has further tightened these measures to ensure that directors and ex-directors who participate in Sentosa Cove land sales do not have an unfair advantage. In particular, board members will no longer have access to privileged information pertaining to Sentosa Cove land sales. Board members will be reminded to declare their interest before the close of a sale exercise and those who have done so must excuse themselves from participating in the evaluation of

proposals. The Ministry is therefore of the view that there is no need to impose a moratorium period on ex-directors transacting with SDC as they would not have had access to privileged information.

25 Notwithstanding the actions by the Ministry and the efforts made by SDC to review its governance structures and sales of land procedures, the Committee is of the view that the inherent weakness of its land sales by private treaty was not fully addressed. Direct negotiation with a prospective buyer may not result in the best price as compared with an auction, especially, in a rising market. It is also open to abuse as leaked information on reserve price, for example, puts a prospective buyer with such information at an advantage over others. The additional control of not providing board directors with privileged information will not prevent public perception of conflict of interest as directors and ex-directors participating in the sales of land will have access to more background information than others. The Committee recommends that the procedures and guidelines in question be further reviewed so that land sales by the SDC not only comply with the principles of fair competition, maximizing total returns to Government and transparency, but are also seen as such by the public.

### **Lapses in Governance Structure and Financial Operations**

26 The Committee was particularly concerned with the observations relating to lapses in the governance structure and financial operations of the Economic Development Board (EDB). The Committee was informed that the budget allocation of \$105 million in the year under review was not submitted to the Board for approval. The Board had also delegated power to staff to grant loans and to borrow without reporting back to the Board. Such practices were not in compliance with the law. The Committee also noted that there were some lapses in the procurement and accounting systems. These matters were of particular concern because this was the first audit of the EDB undertaken by the Auditor-General and the audit had given rise to a large number of observations in which the Board had not established proper internal control procedures.

27 The Committee is encouraged to receive a memorandum from the EDB outlining the prompt action taken by the Board to address the weakness and lapses found by the Auditor-General. The Committee recommends that the EDB should take a pro-active approach to strengthening its governance and financial structures by regularly reviewing its practices and the internal controls in place to reduce the probability of such lapses recurring. The Committee also recommends that the Auditor-General undertake a more regular audit of the EDB.

## MINUTES OF PROCEEDINGS

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### 1st Meeting

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Tuesday, 9th January 2007  
11.30 a.m.

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#### PRESENT:

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

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1. The Committee considered the *Report of the Auditor-General for the Financial Year 2005/06* [Paper Cmd. 7 of 2006].
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 Foreign Affairs, Ministry of Information, Communications and the Arts, Ministry of Manpower, Ministry of Law, and Ministry of Trade and Industry to submit memoranda on matters raised.
3. The Committee further deliberated.

Adjourned to a date to be fixed.

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**2nd Meeting**

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Tuesday, 27th March 2007  
10.00 a.m.

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PRESENT:

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

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1. The Committee deliberated.
  2. The Committee considered the following memoranda received from:
    - (a) Ministry of Foreign Affairs dated 6 February on an Overseas Mission's circumvention of internal controls;
    - (b) Ministry of Defence dated 12 February on procurement irregularities;
    - (c) Central Provident Fund Board dated 12 February on the delay in paying financial aid and refund of excess CPF contributions;
    - (d) Ministry of Trade and Industry dated 22 February on procedural deficiencies of land sales in the Sentosa Development Corporation;
    - (e) Ministry of Trade and Industry dated 22 February on lapses in the governance structure and financial administration of the Economic Development Board;
    - (f) Ministry of Information, Communications and the Arts dated 22 February on unfair payment practices and wrong information on Government Accounting System; and
    - (g) Ministry of Law dated 23 February on inaccurate records of State land and buildings.
  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 27 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.*