

**ELEVENTH PARLIAMENT OF SINGAPORE**

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**First Session**

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**SECOND REPORT OF THE PUBLIC ACCOUNTS COMMITTEE**

**Parl. 1 of 2008**

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**Presented to Parliament on**

**7 May 2008**

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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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## SECOND REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

1 The Committee considered the *Report of the Auditor-General for the Financial Year 2006/07* (Paper Cmd. 4 of 2007). The Committee noted the three broad areas of concern raised by the Auditor-General:

- i) Financial dealings between ministries and statutory boards or corporatised agencies;
- ii) Oversight of outsourced functions; and
- iii) Management of assets by statutory boards.

2 The Committee noted that the Auditor-General had in his current audit uncovered more cases of Government moneys wrongfully kept by statutory boards. These unused grants or overpayments that were not promptly returned to the Government could result in misallocation of public resources as the moneys would not be available in the Government fund for Parliament to channel to other uses for the public good.

3 The Auditor-General had also observed instances of inadequate action being taken by ministries and statutory boards to safeguard the use of public funds in relation to outsourced functions. The Committee noted the Auditor-General's comments in his report that government agencies were still ultimately responsible for the outcome delivered by the service providers they engaged from the point of view of value-for-money as well as accountability.

4 In reviewing the *Report of the Auditor-General*, the Committee also noted the need for public funds and assets to be used and managed more efficiently and effectively. As statutory boards are accountable for the public funds that they receive, they have a responsibility for ensuring the efficient and effective use of their assets to achieve optimal returns and outcomes.

5 On the Auditor-General's specific findings, the Committee sought written explanations from the ministries and statutory boards concerned and enquired into the remedial actions taken in respect of the following audit observations:

- Not claiming medical expenses from insurer;
- Financial assistance not discontinued for deceased persons;
- Unnecessary expenditure in construction project;
- Management of cash reserve needs improvement; and
- Excessive advances to managing agent.

## **Not claiming medical expenses from insurer**

6 The Committee noted from the *Report of the Auditor-General for the Financial Year 2006/07* that medical expenses incurred by three overseas missions had not been claimed under an insurance policy purchased by the Ministry of Foreign Affairs (MFA). The Committee noted that MFA had since reviewed and improved the system to ensure that insurance claims were duly made and that it was in the process of determining the claimable medical expenses incurred since April 2003 when the insurance cover took effect. The Committee requested for an update from MFA on the improvements made and the status of the medical expenses received or claimable from the insurer.

7 The Permanent Secretary of MFA in his reply informed the Committee that MFA had taken immediate action to address the problems, including raising the awareness of the requirement and procedures for submission of insurance claims and also improving the enforcement actions to check on these claims. As at 4 September 2007, MFA identified \$1.56 million in unclaimed medical bills and was in the process of filing these claims.

8 The Committee noted the actions taken by MFA.

## **Financial assistance not discontinued for deceased persons**

9 In his report, the Auditor-General noted numerous payments under a financial scheme which continued to be made to beneficiaries who had passed away. The Committee asked the Ministry of Health (MOH) about the procedures that it had put in place to prevent such overpayments by its agent as well as the amounts that had since been recovered, yet to be recovered or expected to be written off.

10 MOH replied that it had since recovered \$85,200 of the \$178,150 overpayments identified by the Auditor-General. The remaining amount was not recovered as it was MOH's policy not to recover payouts made up to three months of the beneficiaries' death. Going forward, MOH would review its policy of allowing a grace period.

11 The Committee noted that the Auditor-General had in the past also reported problems arising from public agencies not making timely updates to their databases when a person passed away. As the timely updating of death status appeared to be a problem faced by more than one ministry or agency, the Committee was of the view that there should be a central system whereby agencies would be automatically alerted when a death was registered at the Registry of Births and Deaths. This would allow the agencies to update their databases promptly. The Committee sought the view of the Ministry of Finance (MOF) on this matter.

12 The Permanent Secretary of MOF agreed with the Committee's view. In this regard, People Hub, a central database under the Ministry of Home Affairs (MHA) already provides government agencies regularly with people-related information and updates including date of death. MOF would continue to encourage public agencies that require such information for the effective administration of their schemes to obtain them in a timely manner.

13 The Committee was also informed that MOH had since obtained MHA's agreement to provide death records of the beneficiaries on a monthly basis to its agent who was administering the financial scheme.

14 The Committee noted the actions taken by both MOH and MOF.

#### **Unnecessary expenditure in construction project**

15 The *Report of the Auditor-General for the Financial Year 2006/07* observed that the Supreme Court Administration, in adopting certain recommendations of its consultant, incurred unnecessary additional costs. The Committee asked why the contractor was not made to bear the full cost of rectifying the defects as provided for under the Defects Liability Clause in the building contract.

16 The Supreme Court Administration replied that it had since negotiated for further monetary compensation from the contractor and eventually recovered the remaining \$30,789 incurred for the replacement of the glass panels.

## **Management of cash surpluses needs improvement**

17 The Committee noted the poor management of cash surpluses by the Information Communications Development Authority of Singapore as reported in the *Report of the Auditor-General for the Financial Year 2006/07*. The Committee was concerned that statutory boards might not have the expertise to manage their surplus funds for optimal returns. The Committee asked the Ministry of Finance (MOF) to consider pooling and centrally managing the surplus funds of all statutory boards for greater efficiency and effectiveness for the Government as a whole.

18 The Permanent Secretary of MOF responded that the responsibility for overseeing investments of statutory boards rested with the respective boards and ultimately the supervising ministries as they were better attuned to the investment needs and objectives of their boards. MOF had instead provided a checklist to help ministries evaluate their statutory boards' investment structure, processes and portfolios.

19 MOF added that a tender for demand aggregation of fund management services was awarded in July 2007 and statutory boards were encouraged to use these fund managers. However, statutory boards would continue to have the autonomy to decide whether to subscribe to this service.

20 The Committee noted that MOF would continue to monitor the returns on the investment of the funds of statutory boards.

## **Excessive advances to managing agent**

21 The Committee noted from the *Report of the Auditor-General for the Financial Year 2006/07* that the Ministry of Manpower (MOM) had made excessive advance payments to its building management agent and was seeking legal advice on the recovery of interest on the excess funds held by the agent. The Committee requested MOM for an update on the status of the recovery of interest on the unused advances.

22 The Permanent Secretary of MOM explained that based on the facts of the case the Attorney-General's Chambers had since advised that MOM has no legal right to claim interest on the excessive advances held by the agent.

23 Effective from January 2006, the contract with the managing agent no longer had the provision for advance payments. Payments for works carried out by contractors were made directly by MOM after the works had been completed.

24 Arising from the observation made by the Auditor-General on excessive advances to a managing agent, the Committee further recommended that public sector contracts should have sufficient safeguards to ensure recovery of unused advances given to suppliers or contractors. Such safeguards could take the form of a banker's guarantee or security bond obtained from the supplier or contractor.

25 The Committee's recommendation was conveyed to the Ministry of Finance (MOF) which agreed with its view. The MOF further assured the Committee that the Government Instruction Manual already had the requirement for the collection of security such as banker's guarantee or security bond. This requirement was not applied to the MOM contract in question under a special dispensation to facilitate the corporatisation of a then Government department. This dispensation has since lapsed.

### **The Auditor-General's mandate to audit statutory boards**

26 In 2004, the Public Accounts Committee in its Report (Parl. 2 of 2004) recommended 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."

27 The Auditor-General (AG) in his Report for the Financial Year 2006/07 stated that he fully agreed with the Committee's recommendation and would give priority to obtain the manpower and other resources needed to implement it and that he aimed to audit each of the larger statutory boards at least once every five years. The Committee supports the AG's responses to its recommendation.

28 The Auditor-General's Office (AGO) kept the Committee informed of the efforts being made to obtain more resources and the nature and extent of the audits that AGO would carry out on statutory boards going forward. The Committee noted that AGO would audit 18 statutory boards in FY 2007/08, up from 13 in the previous FY. As increasing its audit capacity would take some time, AGO would be farming out some of its financial statements audits to commercial auditors. AGO has sought from the Ministry of Finance the additional budget it needs to implement the Committee's recommendation.

29 AGO informed the Committee of a limitation it faced in implementing the Committee's recommendation fully. Under the current legal framework, the power of the AG to audit all statutory boards is not provided for in the Audit Act. The Audit Act, being an old piece of legislation, pre-dates the formation of most statutory boards which are separate legal entities from ministries and has not been reviewed and updated since it was passed in 1966. Under the law as it now stands, AG is empowered to audit a statutory board only if the Act creating the statutory board gives him the power to do so. Currently a number of statutory boards do not have such a provision in their Acts.

30 The Committee recommends that AGO carry out a review to determine how it could widen and deepen its audit of statutory boards to make its audit more effective. As part of the review, the Committee further recommends that AGO study the best practices of other national audit institutions.

## MINUTES OF PROCEEDINGS

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3<sup>rd</sup> Meeting

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Tuesday, 14<sup>th</sup> August 2007  
11.00 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 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 Registrar of the Supreme Court and the Permanent Secretaries of the Ministry of Finance, Ministry of Foreign Affairs, Ministry of Health, Ministry of Manpower 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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4th Meeting

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Tuesday, 11<sup>th</sup> September 2007  
11.15 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  
Dr Teo Ho Pin  
Mr Wee Siew Kim  
Mr Zaqy Mohamad

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1. The Committee deliberated.
2. The Committee considered the memoranda received from: the Supreme Court and the Ministry of Finance, Ministry of Foreign Affairs, Ministry of Health, Ministry of Manpower and Ministry of Trade and Industry.
3. The Committee further deliberated.

Adjourned to a date to be fixed.

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5th Meeting

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Tuesday, 23<sup>rd</sup> October 2007  
11.00 a.m.

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PRESENT:

Mr Cedric Foo Chee Keng (*in the Chair*)  
Mr Liang Eng Hwa  
Mrs Josephine Teo  
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 2006/07 (Paper Comd. 4 of 2007).
2. The Committee considered the memoranda received from: Ministry of Manpower and Ministry of Trade and Industry.
3. The Committee considered the Chairman's draft report.
4. The Committee further deliberated.

Adjourned to a date to be fixed.

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6th Meeting

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Tuesday, 15<sup>th</sup> April 2008  
11.30 a.m.

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PRESENT:

Mr Cedric Foo Chee Keng (*in the Chair*)  
Mr Liang Eng Hwa  
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 Chairman's draft report brought up and read the first time.
2. Resolved, "That the Chairman's report be read a second time, paragraph by paragraph."  
  
Paragraphs 1 to 30 inclusive read and agreed to.
3. Resolved, "That this report be the Report of the Committee to Parliament."
4. Agreed that the Chairman do present the Report to Parliament when printed copies are available for distribution to Members.

Adjourned *sine die*.