

Official audit finds 'major lapses' in Workers' Party town council books

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THE Auditor-General's Office (AGO) has found several major lapses in the governance of the Aljunied-Hougang-Punggol East Town Council (AHPETC) run by the opposition Workers' Party (WP).

The AGO concluded in a report released on Monday: "Until the weaknesses are addressed, there can be no assurance that AHPETC's accounts are accurate and reliable, or that public funds are being properly spent, accounted for and managed."

Observers told *The Business Times* that the "damning" findings will inevitably create a dent in the public's confidence in the WP, and urged the government to strengthen its powers for regulatory oversight. Several of these commentators described the existing Town Councils Act as "toothless".

The AGO's report will be discussed in Parliament on Thursday, as a motion on it will be tabled by National Development Minister Khaw Boon Wan.

AHPETC remained largely silent on the content of the AGO report, but its chairman Sylvia Lim issued a statement in the evening saying: "We understand that there will be a motion filed in Parliament to debate the matter on Thursday, Feb 12, 2015. That being the case, the town council will give its response in Parliament."

Ms Lim, who is also WP's chairman, told Channel NewsAsia before her Meet-the-People session that members of the public should "look beyond the headlines and summaries" and read the details of the report to get a better understanding of the issues at hand.

In its main report, the AGO flagged five broad areas of "major lapses":

- * Management of sinking funds;
- * Governance of related party transactions;
- * Management of arrears of conservancy and service charges;
- * Internal controls and procurement; and
- * Record management and accounting systems.

Singapore Management University law professor Eugene Tan said the "related party transactions" category is potentially the most damaging of the lot: "One can put in place measures and processes to deal with the other four lapses; it's not too difficult. But the 'related party transactions' issue raises the more important question of how they could've been allowed to happen in the very first place - their chairman (Sylvia Lim) is a legally-trained person.

"I'm not at all suggesting there's wrongdoing, but I think this particular lapse does raise questions of whether residents' interests were compromised in the process ... It does raise questions about integrity and trust - and these are harder to deal with.

"It's something the WP and AHPETC will have to deal with resolutely, effectively, and quickly."

The AGO report said that AHPETC did not comply with the Singapore Financial Reporting Standards, which require a reporting entity to disclose related-party transactions in its financial statements.

The related parties, known as FM Solutions and Integrated Services (FMSI) and FM Solutions and Services Pte Ltd (FMSS), were two companies engaged by the AHPETC to carry out managing agent services and essential maintenance and lift rescue (EMSU) services.

The secretary of AHPETC was the owner of FMSI, a sole proprietorship; the secretary, general manager, and a deputy general manager of AHPETC were directors and shareholders of FMSS.

AHPETC's secretary, Danny Loh, and its general manager, How Weng Fan, are husband and wife.

The audit report said: "First, AHPETC did not disclose in its FY2012/13 financial statements the amount of fees for project management services rendered by FMSS, amounting to S\$223,000. AHPETC also did not disclose that FMSS and FMSI had provided EMSU services to AHPETC in FY2012/13 for a total fee of S\$1.28 million ...

"Second, AGO found that there was no open competition for the procurement of EMSU services in 2011. Hence, there is no assurance that AHPETC had obtained competitive prices for the services."

Referring to instances where Ms How had issued payment claims as the owner of FMSI and director of FMSS, and later certified these claims and approved the payment vouchers in her capacity as general manager of AHPETC, Institute of Policy Studies (IPS) senior research fellow Gillian Koh said: "You don't need to be a professor in corporate governance to know that you can't be writing your own cheques, (especially) when there are not just monies from residents, but also public money (involved)."

While the AGO said it would have liked to see AHPETC put in place "adequate mitigating controls to manage the conflicts of interests", the town council said - in a response given within the report - that it "would like to see a consistent standard applied to all town councils on this matter".

Another key lapse flagged by the AGO pertains to AHPETC's failure to transfer monies into the sinking fund bank accounts as required by the Town Councils Financial Rules.

These funds cannot be used to pay for daily operating expenses, and must be separately maintained for the long-term maintenance of properties. Transfers are to be made within one month from the end of each quarter.

The AGO report showed that AHPETC did not make any transfers to the sinking fund bank accounts for the last three quarters of FY2011/12. Following AGO's query, AHPETC transferred S\$7.44 million on June 30, 2014. However, the AGO found errors in AHPETC's computation, which resulted in a shortfall of S\$469,000.

In addition, transfers made for FY2012/13 were late and shy of the required amounts. "In most instances, the transfers were made only after auditors' queries," added the AGO.

Other key shortcomings include not having a system to monitor arrears of conservancy and service charges accurately, and failing to exercise due diligence in monitoring and following-up on amounts due and monies received from external parties.

Corporate governance advocate and NUS Business School associate professor Mak Yuen Teen said he would like to see the AGO conduct periodic audits of other town councils. "It's not a matter of wanting to uncover problems; we should see it as a helpful way to improve how town councils are run," he said.

Indeed, the AGO's audit of AHPETC had come about only in February 2014, when Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam had directed the Auditor-General to examine AHPETC's FY2012/13 accounts. This was after its auditors, Foo Kon Tan Grant Thornton LLP, failed to give the town council a clean bill of health for the second year running.

In carrying out the audit, the AGO interviewed AHPETC staff and other external parties, and examined records, files, reports and other relevant documents. The Auditor-General had also engaged PricewaterhouseCoopers Consulting (PwC) to review selected areas of AHPETC's accounts.

As for the political fallout that could arise from the AGO report, IPS' Dr Koh said: "Of course, we'll all be listening out for how the WP accounts for and explains all this ... But I think one of the key platforms that the WP has campaigned on so far is that it provides a check on the government and acts as a balance of power in Parliament.

"It's a very compelling argument, but in order to check the government, you also have to prove that you can do your own self-management - it's the very basis of your legitimacy."

Observers BT spoke to noted that the AGO report did not go so far as to state that there was any intent to do wrong on AHPETC's part.

In a response within the AGO report, AHPETC had also said: "What is clear (from the AGO findings) is that no money has been found to be missing, nor has there been any criminal or dishonest activity uncovered. Instead, the observations show mistakes and omissions due to inadvertence, human error, IT system constraints and a lack of experience in dealing with certain scenarios."

But the AGO responded by saying that "AHPETC's broad conclusion cannot be derived" from the audit.

Prof Mak said: "If you look at the terms of reference of this special audit, they were not specifically asked to look for fraud."

Although the Minister for National Development has the legal power to intervene in a failing town council, observers do not think the situation has reached such a dire point yet. Under the Town Councils Act, the minister may appoint a person to step in when a town council has either failed to keep the common property "in a state of good and serviceable repair or in a proper and clean condition", or when there is "imminent danger to the health or safety of residents".

For Prof Mak, the AHPETC audit has shown how "toothless" the existing Town Councils Act is. "At the moment, it's more like naming and shaming - there are very limited sanctions that can be imposed on (an underperforming) town council ... I think the financial rules need to be tightened," he said.

The Ministry of National Development had announced last November that it was reviewing the Town Councils Act to strengthen regulatory oversight.

And as the public awaits this Thursday's Parliament discussion with bated breath, observers say they hope the issue will be debated constructively with the interests of residents at the forefront.

Prof Tan said: "One certainly hopes the sitting doesn't become a platform for the whole matter to get unnecessarily politicised."