
***Pasir Ris-
Punggol Town
Council***
Past Payments
Review Report

30 April 2017



1. *Executive Summary*

Introduction

- 1.1 Pursuant to the judgment of the Singapore Court of Appeal dated 27 November 2015 (the “Judgment”), Pasir Ris-Punggol Town Council (“PRPTC”) appointed PricewaterhouseCoopers LLP (“PwC”) as its accountants to carry out the scope of work set out in the Judgment, including, amongst others, to establish “*whether any past payments made by AHPETC [i.e. Aljunied-Hougang Punggol East Town Council] were improper and ought therefore to be recovered.*”
- 1.2 This stemmed from proceedings commenced by the Ministry of National Development (“MND”) against AHPETC (and the Housing Development Board (“HDB”) subsequently joined as a party to the proceedings) in March 2015 for, amongst others, the appointment of independent accountants for AHPETC. MND’s application was made, arising from findings made in the Auditor-General’s Office’s special audit concerning, amongst others, AHPETC’s governance and its compliance with the Town Council Act (“TCA”) and the Town Councils Financial Rules (“TCFR”). The proceedings were commenced while the constituency of Punggol East (“PE”) was still part of AHPETC. Following the General Election on 11 September 2015 (“GE 2015”), PE became part of PRPTC and AHPETC was reconstituted as Aljunied-Hougang Town Council (“AHTC”). The transfer of properties, rights and liabilities of PE to PRPTC took place on 1 December 2015. In this Report: (a) AHPETC; (b) its predecessor town council, i.e. AHTC before the 2013 PE by-elections (before PE was included on 1 May 2013); and (c) its successor town council, i.e. AHTC post GE 2015 (including PE up to 30 November 2015 before the official handover to PRPTC on 1 December 2015) are collectively termed the Town Council (“Town Council”).
- 1.3 Pursuant to the aforementioned Court of Appeal’s orders in the Judgment, AHTC separately appointed KPMG LLP (“KPMG”) as its accountants. We understand that PRPTC had initially sought a joint appointment of accountants with AHTC, but this proposal was rejected by AHTC.

1.4 In a nutshell, arising from our review of the areas set out in our scope of work, we have made the following key findings in this Report:

- (a) Related Party Transactions with FM Solutions and Services Pte Ltd (“FMSS”)
 - (i) The appointment of FMSS as Managing Agent (“MA”) (and the award of the 1st MA contract to FMSS by waiver of tender) was not in accordance with, and involved a circumvention of, the provisions and safeguards prescribed in the TCFR. It could not be said to be done in the best interest of the Town Council or in good faith.
 - (ii) The choice of FMSS as MA was also likely to have been *by design* rather than necessity, and it was not borne out of a lack of alternatives.
 - (iii) The terms of both the 1st MA contract for the period 15 July 2011 to 14 July 2012 (the “1st MA Contract”) and the 2nd MA contract for the period 15 July 2012 to 14 July 2015 (the “2nd MA Contract”) benefited the Conflicted Persons¹ at the expense of the Town Council.
 - (iv) The tainted circumstances surrounding the set-up of FMSS and appointment of FMSS as MA would put the propriety of *all* payments made under the two MA Contracts to FMSS into question.
 - (v) Those within the Town Council who had brought about the present situation and improper payments ought to be fully liable for all ensuing losses the Town Council may suffer.
 - (vi) It is beyond the scope of our review to look into potential criminal liability, but it suffices for us to state here that the circumstances may warrant further investigations by the relevant authorities as to the relevant potential offences.

- (b) Review of Contracts and Tender Evaluation Reports
 - (i) There is a general lack of documentation on the full reasons and justifications on: (a) why some of the vendors were awarded the contracts although they were the sole bidder and/or they did not submit the lowest bid; and (b) why extension options in existing contracts which provided for lower rates were not exercised by the Town Council, which resulted in the Town Council engaging the same incumbent vendor in new tenders but on significantly higher rates.

¹ Conflicted Persons” are defined in the KPMG Report as individuals having direct ownership interests in FMSS and/or FM Solutions & Integrated Services (“FMSI”) and concurrently holding management positions in the Town Council. They included Mr Danny Loh (Secretary of the Town Council) and Ms How Weng Fan (Deputy Secretary and General Manager of the Town Council).

- (ii) The award of PE-related contracts (by tender) by the Town Council in some instances were not in compliance with the relevant provisions of the TCFR and/or were not in the best interest of the Town Council.
 - (iii) The total costs-savings that the Town Council could have saved (as well as payments made in some instances without proper supporting documents) add up to a total amount of (at least) \$506,562.06.
 - (iv) The Town Councillors and/or Town Council officers who made the decision to enter into these contracts (and/or approve such payments) without good reasons / justifications and/or in breach of the TCFR, should bear personal responsibilities for the loss of this amount.
- (c) Review of Payments Made for PE Direct Expenses in November 2015
- (i) Direct expenses have been made where supporting documents were lacking and/or in breach of the TCFR.
 - (ii) For such payments made in breach of the TCFR, the relevant officer and/or the Head of Department may be liable for such payments.
- (d) Allocation of Common Expenses to PE
- (i) Allocation of common expenses was not performed consistently by the Town Council in the period from 1 May 2013 to 30 November 2015 (“Review Period”).
 - (ii) The integrity and accuracy of AHPETC’s allocation of common expenses during the Review Period is also in doubt.
 - (iii) The failure to properly allocate the common expenses would be in breach of Rule 54 of the TCFR, and may have an impact on the transfer of accounts and balances from AHTC to PRPTC in relation to PE.
- (e) In addition to the above, the Town Council also delayed in granting PwC access to, and failed to provide PwC with, all the necessary documents and information.

1.5 An overview of our scope as well as our findings are further elaborated below in this Executive Summary. For the full details, please refer to the relevant sections of this Report (and the accompanying Appendices).

- 1.6 In finalising this Report, we extended a copy of the draft of the Report (the “Draft Report”) to AHTC for purposes of Maxwellisation.² This afforded AHTC an opportunity to respond to and/or submit representations on the findings and conclusions made by us in the Report. However, AHTC effectively declined to provide any comments to us on our Draft Report.³
- 1.7 Separately, as reference has been made to KPMG’s report on its review of past payments dated 31 October 2016 (the “KPMG Report”) in this Report, we also extended a copy of our Draft Report to KPMG for KPMG’s comments (if any). KPMG indicated to us that it had no objections to PwC referring to its factual findings set out in the KPMG Report, and, as PwC’s scope of work was not the same as KPMG’s, KPMG also indicated that it had no comments on the conclusions drawn in this Report.

Original Scope of Work

- 1.8 In its Judgment, the Court of Appeal had set out the scope of work to be undertaken by the appointed accountants (see paragraphs 119 and 131 of Judgment). The scope of work that the accountants were directed to perform by the Court of Appeal in the Judgment can be summarised as comprising two parts:
- (a) Part I Work – To assist in identifying the outstanding non-compliances with s 35(c) of the TCA and to advise on the steps that must be taken to remedy those outstanding non-compliances. In this regard, the accountants were required to produce monthly progress reports to HDB, providing sufficient details of: (a) the outstanding non-compliances with s 35(c) of the TCA and (b) the steps that AHPETC was taking to remedy those outstanding non-compliances, until the accountants were reasonably satisfied that AHPETC was fully compliant with s 35(c) of the TCA; and
 - (b) Part II Work – Without prejudice to the generality of the above Part I Work, the accountants were to establish whether any past payments made by AHPETC were improper and ought therefore to be recovered.

² A process which ensures that a party criticised is given an opportunity to respond to the criticism.

³ See Appendix A for AHTC’s response set out in its letter dated 10 April 2017.

- 1.9 PwC completed the Part I Work with the submission of the PwC Monthly Progress Report on 15 May 2016 (the “Monthly Progress Report”). In this Monthly Progress Report, it was noted that the non-compliances with s 35(c) of the TCA were all in relation to AHPETC with reference to AHPETC’s systems and processes. Further, following the transfer of the properties, rights and liabilities of PE to PRPTC, on 1 December 2015, PE has adopted PRPTC’s systems and processes. Accordingly, there are no outstanding non-compliances with s 35(c) of the TCA, referred to in the Judgment, by PRPTC in relation to PE. In addition, PRPTC’s financial statements for FY2012/13 to FY2014/15 (latest financials before transfer of PE into PRPTC) were signed off by its statutory auditors without any qualification. Given the above, further monthly progress reports for PRPTC in relation to PE were thus dispensed with.
- 1.10 This Report is therefore focused on the review of past payments under Part II Work.
- 1.11 PE became part of AHPETC on 1 May 2013, following the PE by-elections held on 1 January 2013. Accordingly, PwC’s review of past payments under Part II Work was primarily focused on the period from 1 May 2013 to 30 November 2015 (i.e. the Review Period). However, transactions and/or contracts entered into before this period, under which improper payments could be made, have been included in the scope, in line with the broad remit envisaged by the Court of Appeal for the accountants’ Part II work.

Revised Scope of Work

- 1.12 By the time PwC was granted access by AHTC on 31 October 2016 to the necessary documents and information, which finally enabled PwC to commence effective work on the review of past payments, KPMG had completed its review and had issued the KPMG Report. It would also be clear from the KPMG Report (as well as the scope of its period of review) that its findings are in relation to the entire Town Council (including PE) and are not limited to any specific division.
- 1.13 Although PwC’s preferred approach would have been to perform a full review afresh (including obtaining a holistic understanding of the Town Council’s internal processes and information systems in use), this meant traversing grounds already covered by KPMG in the KPMG Report. In this regard, we also understand that at the Court of Appeal hearing on 8 July 2016, the court had also expressed the view that the two sets of accountants

should avoid and/or minimise any duplication of work, and accordingly had directed that the accountants “should communicate directly with one another and afford each other such access as may reasonably be required to safeguard each party’s interests”⁴.

1.14 In the premises, PwC and PRPTC agreed to revise the scope and/or focus of PwC’s review of past payments, and informed HDB of the same. HDB indicated that it would leave it to PwC’s professional judgment to decide how best to carry out its past payments review in compliance with the Court of Appeal’s orders. Whilst preserving the original scope of work, it was agreed that PwC’s review of past payments should focus chiefly on the following:

- (a) Identifying all other transactions not identified by KPMG which are not in the best interests of AHPETC, including (but not limited to) reviewing the procedural and/or regulatory compliance matters;
- (b) In relation to the transactions above, where appropriate:
 - (i) establish whether any of the past payments made by AHPETC were improper and therefore ought to be recovered;
 - (ii) establish the amount and/or value of the improper payment made;
 - (iii) identify the person(s) to whom such improper payment was made; and
 - (iv) identify the person(s) from whom such improper payment ought to be recovered;
- (c) Reviewing, generally, the assets and/or monies transferred and/or to be transferred to PE, in particular whether any of the improper past payments that ought to be recovered were directly attributable to PE; and
- (d) Where appropriate and/or in the course of performing the review in item (c) above, reviewing the allocation of Town Council's major expenses to the various constituencies and assess the reasonableness and consistency of such allocation.

⁴ AGC's letter dated 11 July 2016 to PRPTC, conveying the Court of Appeal's directions.

Delay in granting PwC access to, and failure to provide PwC with, all the necessary documents and information

Delay in granting PwC access to the necessary documents and information

- 1.15 As early as 15 April 2016, after consulting with PwC, PRPTC had written to AHTC with a detailed list of documents and/or information requested by PwC.
- 1.16 Despite various repeated requests and reminders from PRPTC and PwC, AHTC did not grant PwC access to the necessary documents and information until 31 October 2016 (more than five months after the Monthly Progress Report was issued).
- 1.17 During this time, due to amongst others, various conditions unilaterally imposed by AHTC, PRPTC had to make two applications to the Court of Appeal before PwC was granted access to the necessary documents and information.

Failure to provide PwC all necessary documents and information

- 1.18 For certain requested documents, AHTC had declined to provide them to us. Full details are set out in our Report. If the full set of requested documents was provided to us, we would have been able to pursue further lines of inquiries and/or draw further conclusions.
- 1.19 The delay in granting us access to documents / information, in turn, resulted in PRPTC / PwC having to request, on a few occasions, an extension of time from HDB for the submission of this Report.

Related Party Transactions (“RPTs”) with FMSS and FMSI and Improper Payments made under such Transactions

- 1.20 In our review of the RPTs, we drew reference to the findings of the KPMG Report, and built on these findings made by KPMG. In our view, there are two areas of concerns where further findings and/or conclusions can be drawn / made:

- (a) First, the *circumstances* surrounding the termination of the incumbent MA, CPG Facilities Management Pte Ltd (“CPG”), and the appointment of FMSS as MA (without tender), which *started* the relationship between the Town Council and FMSS, and, *consequently*, put in place the flawed payment approval system.
- (b) Second, KPMG has found that FMSS and FMSI charged significantly higher fees and there were many instances of over-payments and/or unjustified payments to FMSS and/or FMSI. The collective picture painted (coupled with the fact that the Conflicted Persons had a significant role to play in the payment approval process to FMSS and/or FMSI) raises questions as to whether such over-charging and wrongful payments have been made to benefit the Conflicted Persons. This is particularly so for the MA Contracts with FMSS, having regard to the terms of these contracts.

The circumstances surrounding the award of the 1st MA Contract to FMSS

- 1.21 First, the incorporation of FMSS on 15 May 2011 was done just seven days after General Election 2011 (“GE 2011”), and even before CPG had expressed any preference to be released. It is undisputed that FMSS was a company that only provided MA and Emergency Maintenance Service Unit (“EMSU”) services to the Town Council and was set up by ex-Hougang Town Council (“HTC”) staff. It appears that the set-up of FMSS was, right from the start, with a view and intention of providing services (including MA services) to the newly-formed and combined town council comprising Aljunied and Hougang. Indeed, there is documentary evidence, which suggested that How Weng Fan (“How”) and her husband, Danny Loh (“Loh”), had been approached to set up a company to manage the new Town Council.
- 1.22 Further, how was FMSS, a newly incorporated company with no prior track record, so sure that it would secure the MA job for the Town Council, such that soon after issuing a Letter of Intent offering its services as MA for AHTC on 15 June 2011, it proceeded to issue an invoice on 30 June 2011 to charge the Town Council for services in June 2011, even before it was formally appointed on 4 August 2011 and the discharge of the former MA, CPG, on 1 August 2011? This must mean that FMSS was already assured of the job, or as KPMG found, FMSS had already secured “*de facto* appointment”.⁵ In this regard, we noted

⁵ KPMG Report at 5.5.6.

documentary evidence which suggested that as early as May 2011, How had been informed that her company (presumably, FMSS) would be appointed as the MA for the Town Council for a transitional period of one year.

- 1.23 In the premises, we share KPMG's concerns that FMSS had secured *de facto* appointment as the MA by 15 June 2011 although, by that time, it does not appear that any proper and/or thorough assessment had been undertaken as to whether FMSS would be suitable or up for the task, or whether replacing the incumbent CPG with FMSS would be in the best interest of the Town Council.
- 1.24 The second issue was the waiver of tender and approval of appointment of FMSS as MA. This was, as KPMG found, only obtained after FMSS had already effectively secured *de facto* appointment.⁶ The Town Council meeting to waive tender and to appoint FMSS was only held on 4 August 2011, three days after CPG had been released, two months after the incorporation of FMSS on 15 May 2011 and almost (but less than) three months after the GE 2011.
- 1.25 If indeed there was an intention from the start for FMSS to assume the MA role, it is puzzling why the waiver of tender and approval of appointment was only sought much later in August 2011.
- 1.26 It is also difficult to comprehend how before the proper procedures for waiver of tender had run its course, FMSS could be assured of the MA job. These circumstances clearly taint the appointment of FMSS right from the start.
- 1.27 Consistent with KPMG's view that the reasons for the waiver do not appear justified, our review of the waiver tender process showed that the grounds for waiver of tender under Sections 74(17)(b) and (c) of the TCFR were not satisfied in the circumstances of this case and that the entire waiver of tender process was unsatisfactorily and/or undermined in a number of aspects.
- 1.28 As such, it is unclear how such actions could be said to be acting in good faith and in the best interest of the Town Council.

⁶ KPMG Report at 5.5.6.

- 1.29 Finally, the disclosure of conflicts made at the 4 August 2011 Town Council meeting was inadequate, as nothing was disclosed about FMSS' ownership and that Loh and How were the shareholders of FMSS. Some of the elected Town Councillors would have known of the ownership behind FMSS, yet, the minutes show that they kept silent about this material fact. The circumstances therefore suggest that any disclosure made appeared to have been partial.

The terms of both the 1st and 2nd MA Contracts benefited the Conflicted Persons at the expense of the Town Council

- 1.30 Our review of the second area of concern identified for the RPTs was focused on reviewing the explanations for such over-charging and wrongful payments.

The 1st MA Contract

- 1.31 It appears from KPMG's findings that FMSS' FY 2011-12 MA fees were significantly higher than CPG because it included an additional and separate MA fee component to cover the staff cost of all existing staff of the former HTC on a reimbursement basis.
- 1.32 It is unclear why after adopting CPG rates (which would have included manpower costs) and adjusting for revised residential dwelling units, commercial units, hawker stalls and parking lots, FMSS was still entitled to charge a separate additional fee to cover the manpower costs of the existing staff of the former HTC, which were all brought over to run AHTC (and formed the new MA team for AHTC).
- 1.33 Such unjustified element in FMSS' fee structure was not detected by the Town Council and/or was not queried / objected to by the Town Council. There was clearly a lack of close scrutiny of the terms put forward by FMSS.

The 2nd MA Contract

- 1.34 For the tender for the 2nd MA Contract, FMSS had put forward even higher rates, i.e. a marked price increase of 17% (over CPG's rates). What is especially telling is that KPMG has found that the justifications given by FMSS for the higher rates put forward turned out to be completely wrong and/or false.⁷ It appears that FMSS increased its rate in its tender bid, but did not think this would reduce its chances of winning the tender.
- 1.35 Even though the elected Town Councillors had assessed the sole bid put forward by FMSS in the tender for the 2nd MA Contract, it appears that they were already inclined to award the 3-year MA contract to FMSS, even if the terms put forward by FMSS were not necessarily in the best interests of the Town Council.

Conclusion – How our findings on the two identified areas of concern affect the payments made to FMSS

- 1.36 In our view, the consequences arising from our findings are as follows:
- (a) The tainted circumstances surrounding the set-up of FMSS and appointment of FMSS as MA would put the propriety of *all* payments made under the two MA Contracts to FMSS into question.
 - (b) Accordingly, it should be for FMSS to fully account for all the payments received under the MA Contracts and to justify these payments. In this regard, we note also that KPMG was unable to fully identify all improper payments made to FMSS (and FMSI) given that the flawed payment approval system / control failures which allowed improper payments would also tend to conceal instances of improper payments.⁸ In the circumstances, a proper inquiry should be held (for instance, through legal proceedings whereby FMSS is required to fully account and justify all payments it received) to determine the improper payments made to FMSS which ought to be recovered.

⁷ KPMG Report at 5.5.36 and 5.5.40.

⁸ KPMG Report at 5.4.1.

(c) Those within the Town Council who had brought about the present situation where improper payments under the above circumstances have been determined, ought to be fully responsible for all losses the Town Council may suffer.⁹

1.37 Apart from personal civil liability, it also appears to us that the circumstances collectively may give rise to inferences that a deliberate course of action could have been taken by some within the Town Council to appoint and install FMSS as the MA, and to benefit FMSS (and the Conflicted Persons) with such award of MA contract. In our view, written correspondence and/or emails amongst and/or involving the Town Councillors and/or the Conflicted Persons may help to shed further light on the full circumstances and context surrounding the appointment of FMSS as the MA (including the intentions of the Town Councillors and/or Conflicted Persons), but unfortunately, these were apparently not available and/or not given to us, and we are unable to draw further conclusions in this regard. We note that any intentional action may give rise to potential criminal offences under the Penal Code, including criminal breach of trust (under Sections 405 and 409 of the Penal Code) or the offence of public servant disobeying a direction of law (under Section 166 of the Penal Code). However, it is beyond the scope of our review to look into potential criminal liability. It suffices for us to simply state here that the circumstances may warrant further investigations by the relevant authorities as to such potential offences.

Review of Contracts and Tender Evaluation Reports (“TER”)

1.38 From our review of the tender contracts and TERs, we noted a general lack of documentation on the full reasons and justifications on: (a) why some of the vendors were awarded the contracts although they were the sole bidder and/or they did not submit the lowest bid; and (b) why options in existing contracts which provided for lower rates were not exercised by the Town Council, which resulted in the Town Council engaging the same incumbent vendor in new tenders but on significantly higher rates.

⁹ KPMG Report at 4.7.1 and 4.7.2.

1.39 Based on our review, we made the following findings:

- (a) The award of PE-related contracts (by tender) by the Town Council in some instances were not in compliance with the relevant provisions of the TCFR and/or were not in the best interest of the Town Council;
- (b) There were two instances where AHTC/AHPETC only received single bids when a tender was called:
 - (i) In one instance, even though the comparison done by the Contract Department indicated that the sole bidder's rates were higher compared to the existing rates of the incumbent contractors, the Town Council still proceeded to award the contract to the sole bidder, although it could have exercised the options to extend the existing contracts with the incumbent contractors, which would have led to costs savings of \$25,920;
 - (ii) In another instance, the contract was awarded to a single bidder based solely on anecdotal experience of a recent work performed by the bidder, without further evidence of actual requisite experience. For the services performed by this vendor during the Review Period, certain payments were also made without complete supporting documents and these payments amounted to a total sum of \$27,545.65;
- (c) There was one instance where AHTC had awarded a tender to the bidder who did not quote the lowest price and did not achieve the highest Price Quality Method ("PQM") score. The circumstances did not justify the Town Council awarding the contract to a bidder which was not the lowest bidder, and the award of the tender therefore contravened the relevant provisions in the TCFR. Had AHPETC selected the bidder with the lowest tender price, PE could have potentially saved \$2,700.21; and
- (d) There were also two further instances where AHPETC did not choose to extend the contract even though it had the option to do so and it would have been in the interest of the Town Council to do so. Had such options been exercised, AHPETC could have potentially saved \$423,147.00.

Conclusion

1.40 In summary, the total costs-savings that the Town Council could have saved (as well as payments made in some instances without proper supporting documents) add up to a total amount of (at least) \$506,562.06. The Town Councillors and/or Town Council officers who made the decision to enter into these contracts (and/or approve such payments) without good reasons / justifications and/or in breach of the TCFR, should bear personal responsibilities for the loss of this amount.¹⁰

Review of Payments Made for PE Direct Expenses in November 2015

1.41 Expenses borne by PE include, *inter alia*:

- (a) Expenses directly attributable to PE; and
- (b) PE's share of the common expenses.

1.42 Direct expenses made by PE include lifts maintenance, cleaning and conservancy work, refuse handling services, etc. Our review of the direct expenses / payments made for PE in November 2015 revealed that there were several control lapses in AHPETC's procurement-to-payment process, resulting in a number of exceptions and/or irregularities in breach of the TCFR and/or the Town Council's established work processes, and which led generally to a weak control environment. In our view, the payments made in breach of the TCFR and/or the Town Council's established work processes would be payments made improperly.

1.43 We also noted missing supporting documents from our review. There were 22 instances where invoices were paid even though the supporting documents / evidence of work done in the form of job sheets, photograph of works completed or monthly service reports, were missing and this amounted to \$536,059.92. Without the relevant supporting documents (which were missing and/or not properly retained as a matter of record), there is no assurance that the work was satisfactorily performed and/or services were received, and, accordingly, whether the payment made was proper and/or justified.

¹⁰ KPMG Report at 4.7.1 and 4.7.2.

Conclusion

1.44 For the above payments we identified that were in breach of Rules 56(1) and/or Rule 56(4) of the TCFR, the relevant officer and/or the Head of Department may be liable for such payments.

Allocation of Common Expenses to PE

1.45 Expenses borne by PE include its share of the common expenses incurred by the Town Council.

1.46 PE's share of the common expenses is taken into account in computing the balances attributable to PE. Errors in the allocation of common expenses can result in net resource outflow for PE, and from PE's perspective, such wrongly allocated common expenses would also be an improper payment. The allocation of the common expenses to PE would also have a direct bearing on whether the balances handed over and/or to be handed over from AHTC to PRPTC (for the constituency of PE) are correct.

1.47 We found that the allocation of common expenses was not performed consistently by AHPETC in the Review Period. In fact, during a 11-month period (i.e. 1 May 2013 to 31 March 2014), no allocation had been performed by AHPETC, and no satisfactory explanation was offered by the Town Council as to why the allocation was not carried out.

1.48 For the period where allocation of common expenses was performed (i.e. 1 April 2014 to 30 November 2015), we note that inconsistent methods of allocation were used for different periods without justification and/or any good reasons.

1.49 The integrity and accuracy of AHPETC's allocation of common expenses during the Review Period is also in doubt, given that, in our review, we have picked up significant discrepancies in the computation of the allocation percentages for 7 out of a total of 12 months. We also observed instances where the wrong allocation percentages were used for to allocate the common expenses. In this regard, we would point out that Rule 54 of the TCFR provides generally that the Heads of Department "shall be responsible for the accuracy of accounts, vouchers and statements rendered by them or under their authority".

Such accounts and statements would naturally include the proper accounts and records of allocation of common expenses as well. The failure to properly allocate the common expenses would be in breach of Rule 54 of the TCFR.

- 1.50 The Town Council's failure to maintain a complete record of the source information on the housing, commercial and parking lots units from HDB also hampered us from fully determining and verifying the accuracy of the allocation percentages used by the Town Council.

2. Background

Introduction

- 2.1 Pursuant to the judgment of the Singapore Court of Appeal dated 27 November 2015 (the “Judgment”), Pasir Ris-Punggol Town Council (“PRPTC”) appointed PricewaterhouseCoopers LLP (“PwC”) as its accountants to carry out the scope of work set out in the Judgment, including, amongst others, to establish “*whether any past payments made by AHPETC i.e. Aljunied-Hougang Punggol East Town Council were improper and ought therefore to be recovered.*”
- 2.2 This report sets out PwC’s findings in relation to the review of such past payments (the “Report”).
- 2.3 The detailed scope of our appointment, pursuant to the Judgment and as agreed between the Housing Development Board (“HDB”) and PRPTC, is set out in Section 3 of this Report.

Circumstances Leading to PwC’s Appointment

- 2.4 The circumstances leading up to PwC’s appointment and this Report date back to events in 2014 and can be briefly summarised as follows.
- 2.5 On 19 February 2014, the Auditor-General was directed by the (then) Deputy Prime Minister and the Minister for Finance, Mr Tharman Shanmugaratnam, under the Audit Act to carry out a special audit of Aljunied-Hougang-Punggol East Town Council (“AHPETC”)’s accounts, books and records for the Financial Year (“FY”) 2012/13 (the “Audit”).
- 2.6 The special Audit by the Auditor-General’s Office (“AGO”) arose due to serious concerns over AHPETC’s financial statements for FY2012/13, which were audited by Foo Kon Tan Grant Thornton LLP (“FKT”). FKT, in its Auditor’s Report for AHPETC’s financial statements for FY2012/13 had issued a disclaimer of opinion and stated, amongst others, that AHPETC had not complied with the provisions of the Town Council Act (“TCA”) and the Town Councils Financial Rules (“TCFR”).

2.7 On 9 February 2015, AGO released its report on the Audit (the “AGO Report”). The AGO Report identified several major lapses in AHPETC’s governance and its compliance with the TCA and the TCFR. These included the following:

- (a) Failure to transfer monies into the sinking fund bank accounts as required under the TCFR;
- (b) Inadequate oversight of related party transactions involving ownership interests of key officers, hence risking the integrity of such payments;
- (c) Not having a system to monitor arrears of conservancy and service charges accurately and hence there is no assurance that arrears are properly managed;
- (d) Poor internal controls, hence risking the loss of valuable, unnecessary expenditure as well as wrong payments for goods and services; and
- (e) No proper system to ensure that documents were safeguarded and proper accounts and records were kept as required by the TCA.

The AGO Report concluded that *“[u]nless the weaknesses are addressed, there can be no assurance that AHPETC’s financial statements are accurate and reliable and that public funds are properly spent, accounted for and managed.”*

2.8 On March 2015, arising from the findings made in the AGO Report, proceedings were commenced by the Ministry of National Development (“MND”) against AHPETC (and HDB subsequently joined as a party to MND’s application) for, amongst others, the appointment of independent accountants for AHPETC. MND’s application was made while the constituency of Punggol East (“PE”) was still part of AHPETC. Following the General Election on 11 September 2015, PE became part of PRPTC and AHPETC was reconstituted as Aljunied-Hougang Town Council (“AHTC”).

2.9 On 27 November 2015, the Court of Appeal issued the Judgment (in respect of MND’s application) and ordered, amongst others, that AHPETC appoint accountants to assist in identifying the outstanding non-compliances with s 35(c) of the TCA, to advise on the steps that must be taken to remedy those outstanding non-compliances, and to establish whether any past payments made by AHPETC were improper and ought therefore to be recovered.

- 2.10 We understand that by virtue of the Town Councils (Declaration of Towns) Order 2015, all properties, rights and liabilities of AHPETC (including the liabilities and obligations of AHPETC under the Judgment) that related to PE, are, as from 1 December 2015, the properties, rights and liabilities of PRPTC.
- 2.11 Accordingly, pursuant to the aforementioned Court of Appeal's orders in the Judgment, AHTC appointed KPMG LLP ("KPMG") as its accountants, while PRPTC appointed PwC. We understand that PRPTC had initially sought a joint appointment of accountants with AHTC, but this proposal was rejected by AHTC.

The Delay in the commencement of PwC's work for this Report

- 2.12 The scope of work that the accountants were directed to perform by the Court of Appeal in the Judgment essentially comprised two parts (see further Section 3 below for greater details):
- (a) The first was for the accountants to assist in identifying the outstanding non-compliances with s 35(c) of the TCA and to advise on the steps that must be taken to remedy those outstanding non-compliances. In this regard, the accountants were required to produce monthly progress reports to HDB, providing sufficient details of: (i) the outstanding non-compliances with s 35(c) of the TCA and (ii) the steps that AHPETC was taking to remedy those outstanding non-compliances, until the accountants were reasonably satisfied that AHPETC was fully compliant with s 35(c) of the TCA ("Part I Work"); and
 - (b) The second part was that, without prejudice to the generality of the above Part I Work, the accountants were to establish whether any past payments made by AHPETC were improper and ought therefore to be recovered ("Part II Work").
- 2.13 PwC completed the Part I Work with the submission of its finalised monthly progress report dated 30 April 2016 to HDB ("PwC Monthly Progress Report") on 15 May 2016. However, thereafter, PwC was unable to commence effective work on the Part II Work until 1 November 2016.

- 2.14 In short, the reason for this was that, notwithstanding various repeated requests and reminders from PRPTC and PwC, AHTC did not grant PwC access to all the necessary documents and information required to perform our work. The lack of access to the necessary documents and information eventually resulted in PRPTC having to apply to the Court of Appeal subsequently on two occasions for further directions / orders for the release of the necessary documents and information to PwC. This culminated in a further judgment (the “Further Judgment”) issued by the Court of Appeal on 28 October 2016, which, amongst others, ordered that AHTC grant PRPTC / PwC access to the necessary documents no later than 4 November 2016. The full details in relation to PwC’s document request and the delay and/or failure by AHTC to grant PwC access to the necessary documents and/or information is the subject of our finding in Section 5E below.
- 2.15 It suffices for us to state here at the outset of this Report that as a result of the Court of Appeal’s further orders made in the Further Judgment (including the imposition of a deadline of 4 November 2016 for compliance), AHTC finally granted PwC access to the necessary documents and information only on 31 October 2016.
- 2.16 However, by this time, KPMG (i.e. AHTC’s accountants) had completed its work on the review of past payments (i.e. the Part II Work ordered by the Court of Appeal) and had issued its report of such review dated 31 October 2016 on 1 November 2016 (the “KPMG Report”). Accordingly, AHTC’s prolonged delay in granting PwC access to the necessary documents and information has led to the anomalous situation where AHTC’s accountants, KPMG (which we understand was granted access to the necessary documents and information upon its appointment in March 2016), has completed and issued its report on the review of past payments, while PwC was only just being granted access to the necessary documents and information, which it needed to perform the review of past payments. The fact that KPMG has already completed its review and made findings on past payments of AHPETC would have an impact on the scope of review for PwC in relation to the Part II Work, as we will elaborate further below in Section 3.

Maxwellisation and KPMG's comments

- 2.17 In finalising this Report, we sought to conduct a Maxwellisation¹¹ exercise with AHTC and also, separately, sought the comments (if any) of KPMG.
- 2.18 On 3 April 2017, we extended a copy of the draft of the Report (the "Draft Report") to AHTC for purposes of Maxwellisation, and gave AHTC one week to reply. This afforded AHTC an opportunity to respond to and/or submit representations on the findings and conclusions made by us in the Report. However, on 10 April 2017, AHTC wrote to us and stated that: (a) pursuant to the Judgment, KPMG had submitted the KPMG Report which covered the time period where PE was managed by AHPETC / AHTC; and (b) an Independent Panel ("IP") has since been appointed by AHTC, with the agreement of HDB, to look into the KPMG Report. In its letter, no comments were provided by AHTC on any of our findings and conclusions in the Draft Report. Copies of our letter dated 3 April 2017 to AHTC and AHTC's reply dated 10 April 2017 are enclosed in Appendix A.
- 2.19 In short, despite being given a reasonable opportunity to do so, AHTC (in its letter) raised no objection or issue to the findings and conclusions in our Draft Report.
- 2.20 Separately, as reference has been made to KPMG Report in this Report, we also extended a copy of our Draft Report to KPMG for KPMG's comments (if any) on 3 April 2017. On 10 April 2017, KPMG indicated to us that: (a) on the basis that it acknowledged the public interest in the KPMG Report, it had no objections to PwC referring to its factual findings set out in the KPMG Report; and (b) as PwC's scope of work was not the same as KPMG's, it had no comments on the conclusions drawn in this Report.

¹¹ A process which ensures that a party criticised is given an opportunity to respond to the criticism.

3. Scope of PwC's Work

Original Scope of Work

- 3.1 In its Judgment, the Court of Appeal had set out the scope of work to be undertaken by the appointed accountants. See paragraphs 119 and 131 of the Judgment in Appendix B.
- 3.2 Pursuant to the scope of work set out in the Judgment, the full terms of reference (“TOR”) for PwC, agreed with PRPTC and HDB, are set out in Appendix C.
- 3.3 As we have explained above, the scope of work that the accountants were directed to perform by the Court of Appeal in the Judgment can be summarised as comprising two parts:
- (a) Part I Work – To assist in identifying the outstanding non-compliances with s 35(c) of the TCA and to advise on the steps that must be taken to remedy those outstanding non-compliances. In this regard, the accountants were required to produce monthly progress reports to HDB, providing sufficient details of: (a) the outstanding non-compliances with s 35(c) of the TCA and (b) the steps that AHPETC was taking to remedy those outstanding non-compliances, until the accountants were reasonably satisfied that AHPETC was fully compliant with s 35(c) of the TCA; and
 - (b) Part II Work – Without prejudice to the generality of the above Part I Work, the accountants were to establish whether any past payments made by AHPETC were improper and ought therefore to be recovered.
- 3.4 PwC completed the Part I Work with the submission of the PwC Monthly Progress Report on 15 May 2016 (the “Monthly Progress Report”). In this Monthly Progress Report, the following observations and/or conclusions were included:
- (a) The findings by the AGO in the Audit on the non-compliances with s 35(c) of the TCA were all in relation to AHPETC with reference to AHPETC’s systems and processes. At the time when such non-compliances were identified, PE was part of

AHPETC and was managed and operated under AHPETC's systems and processes. The "non-compliances" with s 35(c) of the TCA are "non-compliances" of AHPETC's systems and processes with s 35(c) of the TCA.

- (b) The transfer of the properties, rights and liabilities of PE to PRPTC took place on 1 December 2015, subsequent to the issuance of the Judgment on 27 November 2015. Since 1 December 2015, PE has adopted PRPTC's systems and processes. No non-compliances, whether with s 35(c) of the TCA or otherwise, were identified by the AGO or referred to by the Judgment for the period after 1 December 2015 in relation to PRPTC's systems or processes. Accordingly, there are no outstanding non-compliances with s 35(c) of the TCA identified in the Audit and referred to in the Judgment by PRPTC in relation to PE. In addition, as PRPTC's financial statements for FY2012/13 to FY2014/15 (latest financials before transfer of PE into PRPTC) were signed off by its statutory auditors without any qualification, the Minister of Finance did not order any special audit to be carried out by the AGO in relation to PRPTC's financial statements.

Given the above, and in light of present circumstances, further monthly progress reports for PRPTC in relation to PE were thus dispensed with.

- 3.5 This Report is therefore focused on the review of past payments under Part II Work.
- 3.6 As made clear by the orders given in the Judgment, the scope of the Part II Work is broad and is not confined to improper payments arising only from non-compliances of s 35(c) of the TCA. Instead, the accountants are to establish whether "any" past payments made by AHPETC were "improper" and "ought therefore to be recovered".

3.7 PE became part of AHPETC on 1 May 2013, following the PE by-elections held on 1 January 2013. Accordingly, PwC’s review of past payments under Part II Work was primarily focused on the following review period. For comparison, we have included KPMG’s period of review and area for focus as follows:

Varying Review Criteria	PwC	KPMG
Period of Review	1 May 2013 to 30 November 2015	27 May 2011 to 27 November 2015
Area of Focus	PE	Entire Town Council

3.8 As indicated on the above table, PwC’s review is focused on transactions relating to PE over the period where PE was part of AHPETC, i.e., 1 May 2013 to 30 November 2015 (the “Review Period”). However, transactions and/or contracts entered into before this period, under which improper payments could be made, have been included in the scope, in line with the broad remit envisaged by the Court of Appeal for the accountants’ Part II Work and/or our TOR. There may, for example, be contracts entered into for the entire Town Council (which was subsequently extended to PE), under which improper payments could have been made. Further, improper payments made by the Town Council as a whole may have a bearing on the cash and assets of PE, which were and/or are to be handover over to PRPTC.

Revised Scope of Work

3.9 As alluded to above, by the time PwC was granted access on 31 October 2016 to the necessary documents and information, which finally enabled PwC to commence effective work on the review of past payments on 1 November 2016, KPMG had in fact completed its review and had issued the KPMG Report. It would also be clear from the KPMG Report (as well as the scope of its period of review) that its findings are in relation to the entire Town Council (including PE) and are not limited to any specific division.

3.10 In these circumstances, although PwC’s preferred approach in carrying out the review of the past payments would have been to perform a full review afresh (including obtaining a holistic understanding of the Town Council’s (including PE’s) internal processes and information systems in use), this would not have made sense and/or would not be practical or cost-effective, as it would (clearly) mean traversing grounds already covered by KPMG

in the KPMG Report. In this regard, we also understand that at the Court of Appeal hearing on 8 July 2016, the court had also expressed the view that the two sets of accountants should avoid and/or minimise any duplication of work, and accordingly had directed that the accountants “should communicate directly with one another and afford each other such access as may reasonably be required to safeguard each party’s interests”.¹²

3.11 In the premises, PwC and PRPTC agreed to revise the scope and/or focus of PwC’s review of past payments, and informed HDB of the same. HDB indicated that it would leave it to PwC’s professional judgment to decide how best to carry out its past payments review in compliance with the Court of Appeal’s orders. Whilst preserving the original TOR to establish whether any past payments made by AHPETC were improper and ought therefore to be recovered in respect of all payments which arise from or otherwise affect directly or indirectly the interests and/or assets of the constituency of PE (including interests in the amount of assets and/or monies transferred or to be transferred to PE), it was agreed that PwC’s review of past payments should focus chiefly on the following:

- (a) Identifying all other transactions not identified by KPMG which are not in the best interests of AHPETC, including (but not limited to):
 - (i) establishing, *inter alia*, the nature and purpose of the transaction, the circumstances giving rise to and surrounding the transaction, the amounts paid or received, the person(s) to whom payment was made, the person(s) who were responsible for the payment, the work done and/or services rendered and the value of the work done and/or services rendered;
 - (ii) reviewing the procedural and/or regulatory compliance matters pertaining to the above transactions;
 - (iii) identifying the recipients of the assets and/or monies transferred and/or paid out by AHPETC, including, where appropriate, whether such recipient is / was a related party and/or associate of any Town Councillors, Town Council Officers and/or Town Council employees, and/or is / was otherwise entitled to receive payment. (Please refer to Appendix D for the list of Town Councillors)

¹² See AGC’s letter dated 11 July 2016 to PRPTC, conveying the Court of Appeal’s directions. See also the Further Judgment at paragraph 3.

- (b) In relation to the transactions above, where appropriate:
 - (i) establishing whether any of the past payments made by AHPETC were improper and therefore ought to be recovered;
 - (ii) establishing the amount and/or value of the improper payment made;
 - (iii) identifying the person(s) to whom such improper payment was made; and
 - (iv) identifying the person(s) from whom such improper payment ought to be recovered;
- (c) Reviewing, generally, the assets and/or monies transferred and/or to be transferred to PE, in particular whether any of the improper past payments that ought to be recovered were directly attributable to PE; and
- (d) Where appropriate and/or in the course of performing the review in item (c) above, reviewing the allocation of Town Council's major expenses to the various constituencies and assess the reasonableness and consistency of such allocation.

3.12 The above revised scope of work had been established on the basis and/or assumptions that:

- (a) PwC, in its review of past payments, is entitled (but not required) to rely on the findings made by KPMG, and the work that has been carried out by KPMG (whether or not they have been reported in the KPMG Report);
- (b) PwC is not required to separately and independently establish and/or verify such findings made by KPMG; and
- (c) Although KPMG is not minded to share its working papers with us, KPMG will be prepared to assist PwC in the understanding of the documents and/or general ledger data provided by AHTC and/or KPMG will be prepared to provide any requisite information for PwC to undertake its work.

Structure of this Report

3.13 The structure of this Report is as follows:

- (a) The main findings of PwC are set out in Section 5 of this Report.
- (b) Under Section 5, our findings are set out in the following order:
 - (i) Review of related-party transactions (“RPTs”) with FM Solutions and Services Pte Ltd (“FMSS”) and FM Solutions and Integrated Services (“FMSI”) – In this regard, we build on what has been established in KPMG’s detailed review of the RPTs and investigate further two identified areas of concerns in relation to the RPTs with FMSS.
 - (ii) Review of PE-related contracts and Tender Evaluation Reports – As part of our revised scope of work to look into transactions not identified by KPMG which are not in the best interests of AHPETC and/or under which improper payments have been made, we also reviewed PE-related contracts / transactions (both contracts for the division of PE only and contracts involving other divisions) procured through the tender process. These would be contracts / transactions which would involve expenditure of significant sums of money.
 - (iii) Review of PE’s direct payments for November 2015 – Generally, expenses for a division such as PE can be incurred in two ways, namely, by way of a direct expense by PE itself, under which an expenditure is incurred only in relation for works and/or services performed solely for PE (and not the other divisions), and by way of a common expense for the entire Town Council, under which PE’s share / portion of this common expenses would be allocated to it. For the former, we reviewed such direct payments for the month of November 2015 (see paragraphs 5.116-5.120 below for the reasons for the choice of November 2015) for any improper payments (for the latter, see sub-paragraph (iv) below).
 - (iv) Allocation of common expenses to PE – From PE’s (and PRPTC’s) perspective, an improper payment could also take the (additional) form of a wrongly allocated common expense to PE. The question of proper allocation of the common expenses to PE would also have a direct bearing on whether the

balances handed over and/or to be handed over from AHTC to PRPTC for the constituency of PE are correct.

- (v) Delay in granting PwC access to, and failure to provide PwC with, all the necessary documents and information – Finally, we make some observations on the difficulties and/or problems encountered by PwC in its document / information request in relation to the review of past payments in this Report. This has, in turn, delayed the commencement of PwC’s work for this Report and/or affected our ability to draw further conclusions on the RPTs.

4. *Disclaimers*

- 4.1 PwC has not been asked (and it has not) commented on, reviewed or assessed the validity or enforceability of the documents provided to PwC. The procedures that PwC performed under this engagement do not constitute an audit or review in accordance with generally accepted auditing or attestation standards. The Report is solely for the use and benefit of HDB and PRPTC and should not be relied upon by any other party, whether in part, in whole or in any capacity or context whatsoever. PwC has not audited or otherwise verified the information supplied to it in connection with its work from whatever source except as specified herein.
- 4.2 This Report is based on documents and information relevant to its scope of work that were made available to PwC up to 23 December 2016 as well as HDB's letter dated 24 February 2017. Documents or information provided to PwC after 23 December 2016 (excluding HDB's letter dated 24 February 2017) may have an impact on the Report. PwC reserves its right to correct any part of its Report as and when such documents or information emerge.
- 4.3 PwC makes no representation and gives no warranty to any person (except to the extent provided in its engagement letter dated 29 February 2016) as to the accuracy or completeness of PwC's Report. PwC does not accept or assume responsibility for its work and its Report to any other party except to the HDB and PRPTC. PwC's work was not planned or conducted in contemplation of reliance by any other party. Therefore, items of possible interest to any other party will not be specifically addressed and matters may exist that would be assessed differently by any other party.

5. Findings

A. Related Party Transactions with FMSS and FMSI and Improper Payments made under such Transactions

- 5.1 Based on our review, the past payments made by the Town Council under its RPTs with FMSS and FMSI amounted to a total substantial sum of \$33,717,535 for the period between May 2011 to November 2015.
- 5.2 It is therefore unsurprising that a significant portion of the KPMG Report is devoted to addressing KPMG’s findings on these RPTs with FMSS and FMSI, and the improper payments made thereunder.¹³ We note also that the KPMG Report has organised its findings sequentially in the order of severity,¹⁴ and the findings on the RPTs with FMSS and FMSI were addressed first, given that the most serious lapses were observed in this regard.

Summary of KPMG’s key findings on RPTs with FMSS and FMSI

- 5.3 A summary of the findings made in the KPMG Report on the RPTs with FMSS and FMSI, including the key figures which KPMG has identified as improper payments, is set out in Appendix E. We have not, in the course of our review, come across anything which would detract from the findings made by KPMG.
- 5.4 Briefly, we note that KPMG has made four key findings:
- (a) First, the Town Council’s governance of matters relating to FMSS and FMSI was “*seriously flawed*”.¹⁵ The Conflicted Persons¹⁶ held direct ownership interests and management responsibilities in FMSS and/or FMSI, whilst concurrently holding key management and operational positions in the Town Council. This was a serious

¹³ KPMG Report at 1.3.5.

¹⁴ KPMG Report at 1.3.5

¹⁵ KPMG Report at 5.2.20.

¹⁶ “Conflicted Persons” are defined in the KPMG Report as individuals having direct ownership interests in FMSS and/or FMSI and concurrently holding management positions in the Town Council. They included Mr Danny Loh (Secretary of the Town Council) and Ms How Weng Fan (Deputy Secretary and General Manager of the Town Council).

conflict of interest.¹⁷ This also led to a severely undermined payment approval process for FMSS and FMSI and pervasive control failures. Such system / pervasive control failures which allowed improper payments would also tend to conceal instances of improper payments, and concurrently determination of how much ought to be recovered.¹⁸

- (b) Second, given the limitation above, KPMG has only managed to detect some but not all improper payments to FMSS and FMSI¹⁹, which aggregate to a total sum in excess of \$1,518,286, and has assessed that at least \$624,621 (out of this total sum) ought to be recovered. There were, however, certain items which KPMG was unable to determine the amounts that should be recovered.
- (c) Third, KPMG noted that it remains “a real and reasonable prospect that there are further instances of improper payments to FMSS or FMSI in respect of which detection by an independent review is not readily achievable”.²⁰ This is because payment vouchers and Work Orders were approved by the ultimate beneficiaries themselves.²¹
- (d) Fourth, the tender and engagement process in respect of FMSS and FMSI were, as a whole, inadequate and unsatisfactory, particularly in relation to the MA contracts:²²
 - (i) For the first MA contract with FMSS for the period 15 July 2011 to 14 July 2012 (the “1st MA Contract”) under which FMSS was first appointed as the Town Council’s MA by waiver of tender, taking over from the incumbent MA, CPG Facilities Management Pte Ltd (“CPG”), KPMG concluded that the process by which FMSS was appointed as MA was “*unsatisfactory overall*”.²³ In particular, KPMG found that the manner that the tender was waived in the circumstances leads to the conclusion that: (i) the Workers’ Party (“WP”) “*intended to import expertise from Hougang SMC – whether in the form or incarnation of FMSS or otherwise*”; and (ii) it was not a case where the Town Council had no real alternatives to FMSS but “*because the Workers’ Party had*

¹⁷ KPMG Report at 5.2.3.

¹⁸ KPMG Report at 5.4.1.

¹⁹ KPMG Report at 5.3.2-5.3.36.

²⁰ KPMG Report at 5.4.1.

²¹ KPMG Report at 5.4.7.

²² KPMG Report at 5.5.1.

²³ KPMG Report at 5.5.20.

from the outset decided to keep the work “in house” in relying on resources already familiar and available.”²⁴

- (ii) For the second MA contract with FMSS for the period 15 July 2012 to 14 July 2015 (which was awarded by tender) (the “2nd MA Contract”), KPMG found, *inter alia*, that the marked price increased put forward by FMSS was unjustified²⁵, and that had the Tender & Contracts Committee taken a sufficiently robust and stringent approach in scrutinising FMSS’s MA fees and project management fees, the Town Council could potentially have avoided significant additional costs, of, conservatively, \$746,000.²⁶

For both contracts, KPMG also observed that the Town Council failed to adequately address the critical and serious conflicts of interest in the appointment of FMSS or discuss the necessary safeguards to be adopted.²⁷

PwC’s review of the RPTs

5.5 As explained above, under our revised scope and/or focus of work, PwC will not traverse the grounds already covered by KPMG. Based on the KPMG Report, in relation to RPTs, we note that KPMG has already:

- Reviewed all transactions recorded in the Town Council’s general ledger made by the Town Council with FMSS and FMSI;
- Reviewed the Town Council’s governance and payment system relating to RPTs with FMSS and FMSI;
- Identified both identifiable and unidentifiable improper payments to FMSS and FMSI;
- Reviewed the tender process for FMSS and FMSI; and

²⁴ KPMG Report at 5.5.19.

²⁵ KPMG Report at 5.5.38-5.5.39.

²⁶ KPMG Report at 5.5.40: There are five scenarios in KPMG’s Report, and the potential costs savings range from SGD 670,000 to SGD 5,293,000.

²⁷ KPMG Report at 5.5.11 and 5.5.44.

- Verified if there were RPTs with other parties through data analytics, corporate intelligence procedures, Vendor Anomaly Detection Model and/or corporate database analysis tools.

5.6 We also discussed with KPMG to:

- Understand the audit strategy and procedures adopted by KPMG;
- Clarify findings identified in the KPMG Report;
- Determine sufficiency and appropriateness of KPMG’s audit procedures performed for the purpose of our reliance on their work done;
- Understand the sampling methodology and rationale for the approach adopted by KPMG in their selection of samples for the various testing performed; and
- Understand the risks KPMG was looking out for and addressing with respect to the various procedures performed to better understand the objectives of the procedures.

5.7 In our review of the RPTs, we have therefore sought to build on the findings made in the KPMG Report, and to see if further findings and/or conclusions can be drawn in the circumstances. In our view, further findings and/or conclusions can be drawn / made in relation to two areas of concerns:

- (a) First, the *circumstances* surrounding the termination of the incumbent MA, CPG, and the appointment of FMSS as MA (without tender), which *started* the relationship between the Town Council and FMSS, and, *consequently*, put in place the flawed payment approval system. The findings made by KPMG suggest that the choice of FMSS as MA was likely to have been *by design* rather than necessity, and it was not, as the Town Councillors had explained, borne out of a lack of alternatives. The present financial situation in the Town Council would have been very different if it had simply continued with the MA contract with CPG (“CPG Contract”), which KPMG found was an option opened to the Town Council (as the CPG Contract was until 31 July 2013 and the Town Council had no obligation to release CPG and could

have insisted that CPG complete its contract). The significant additional costs and/or improper payments paid to FMSS would have been avoided, if this approach was pursued.

- (b) Second, KPMG has found that FMSS and FMSI charged significantly higher fees (than other (more experienced) vendors and compared to other Town Councils), and there were many instances of over-payments and/or unjustified payments to FMSS and/or FMSI. The collective picture painted (coupled with the fact that the Conflicted Persons had a significant role to play in the payment approval process to FMSS and/or FMSI (and, ultimately, themselves, as they were the owners of FMSS and FMSI)) raises questions as to whether such over-charging and wrongful payments have been made to benefit the Conflicted Persons. This is particularly so for the MA Contracts with FMSS, having regard to the terms of these contracts. In our view, this was an area that also warranted further investigations.

5.8 We elaborate on our findings on these two areas further below.

The circumstances surrounding the award of the 1st MA Contract to FMSS

Chronology of key events

5.9 Based on publicly available facts, findings in the KPMG Report and our review of the relevant documents made available to us, the following is the chronology of key events surrounding the appointment of FMSS as the MA:

- (a) *7 May 2011* – General Elections 2011 (“GE 2011”) took place, and WP won Aljunied Group Representation Constituency (“Aljunied GRC”).
- (b) *15 May 2011* – Seven days after GE 2011, FMSS was incorporated. At the time of its incorporation, the sole shareholder and director of FMSS was Danny Loh (“Loh”), one of the Conflicted Persons identified by KPMG. Loh was married to How Weng Fan (“How”), and was also the sole proprietor of FMSI which had been providing EMSU services to HTC since, at least, 2007. Subsequently, in or around mid-June

2011, How also became a shareholder of FMSS. We understand that How and Low were at all material times the majority shareholders of FMSS.²⁸

- (c) *In or around late May 2011 / 30 May 2011* – According to the Town Council, this was the time that the incumbent MA, CPG, expressed a preference to be released from the CPG Contract. KPMG noted this date as 30 May 2011 in the KPMG Report.²⁹
- (d) *15 June 2011* – FMSS issued a letter of intent to Sylvia Lim (“SL”), as Chairman of AHTC, to offer its services as MA for AHTC for the period from 15 July 2011 onwards (the “Letter of Intent”). In this letter, it was further stated that in anticipation of its appointment as MA of AHTC from 15 July 2011, FMSS would take over “all the existing staff of the former Hougang Town Council at their existing salary and terms of appointment on 15 June 2011”. According to KPMG, this meant that “FMSS had secured *de facto* appointment as AHTC managing agent as at that earlier date”³⁰.
- (e) *30 June 2011* - Indeed, as KPMG also observed, FMSS promptly proceeded to issue an invoice dated 30 June 2011 to the Town Council that included S\$92,000 for its “Provision of Managing Agent Services for Hougang SMC for the month of June 2011”³¹.
- (f) *1 August 2011* – The Town Council signed the deed of release and discharged and released CPG. On the same day, the Town Council also appointed Loh as the Secretary, taking over from Jeffrey (the incumbent Secretary from CPG).
- (g) *4 August 2011* – The Town Council meeting took place to seek the waiver of tender and the approval for the appointment of FMSS as MA. The appointment of Loh as Secretary was also retrospectively ratified by the Town Council.

5.10 In our view, the above chronology clearly raises two issues, in relation to the appointment of FMSS as MA, which we explore further below.

²⁸ KPMG Report at 3.7.1 and 3.7.5.

²⁹ KPMG Report at 5.5.6.

³⁰ KPMG Report at 5.5.6.

³¹ KPMG Report at 5.5.6.

The choice of FMSS as MA and waiver of tender

- 5.11 First, the incorporation of FMSS was done just seven days after GE 2011, and even before CPG had expressed any preference to be released. The ACRA Corporate Profile of FMSS shows that its principal activity is in “town councils”. It is undisputed that FMSS was a company that only provided MA and EMSU services to the Town Council and was set up by ex-HTC staff. It appears that the set-up of FMSS was, right from the start, with a view and intention of providing services (including MA services) to the newly-formed and combined town council comprising Aljunied and Hougang. Indeed, there is documentary evidence, which suggested that How and her husband, Loh, had been approached to set up a company to manage the new Town Council.³²
- 5.12 This raises further questions. How was FMSS, a company with no prior track record, so sure that it would secure the MA job for the Town Council, such that it could proceed to charge the Town Council for services in June 2011, even before it was formally appointed on 4 August 2011 and the discharge of the former MA, CPG, on 1 August 2011? This must mean that by 15 June 2011, FMSS was already assured of the job, or as KPMG found, FMSS had already secured “*de facto* appointment”.³³ In this regard, we noted documentary evidence which suggested that as early as May 2011, How had been informed that her company (presumably, FMSS) would be appointed as the MA for the Town Council for a transitional period of one year.³⁴ Further, we also note that the Town Council Chairman, SL, formally accepted the Letter of Intent (and Yaw Shing Leong countersigned it) in July 2011, before the 4 August 2011 meeting.
- 5.13 We would further point out here (at the outset) that we had asked the Town Council for correspondence and/or written communications, including, importantly, emails, in relation to, amongst others, the takeover of the MA services by FMSS in 2011 (including the termination of CPG) and the award of the 1st MA Contract to FMSS. We had asked for all such correspondence and emails, whether within the Town Council itself or between the Town Council and external parties such as FMSS, and/or whether amongst one or more individuals (including the Town Councillors and FMSS’ personnel such as How and

³² Email, amongst others, certain elected Town Councillors dated 19 June 2013 (and the attachment therein), given as part of the IP Documents received from HDB on 24 February 2017 (see 5.13 of the Report for further details on the IP Documents).

³³ KPMG Report at 5.5.6.

³⁴ Email between certain elected Town Councillors and How dated 19 May 2011, given as part of the IP Documents received from HDB on 24 February 2017 (see 5.13 of the Report for further details on the IP Documents).

Loh). However no such correspondence or emails were given to us by the Town Council.³⁵ Instead, some such correspondence were only given to us by HDB on 24 February 2017 (as we were finalising this report), when we were copied in HDB's letter dated the same day to the IP appointed by AHTC to look into, amongst others, actions that should be taken following the findings made in KPMG Report. In this letter (which was copied to both KPMG and us), HDB had sent the IP a list of documents (the "IP Documents") for their information, which included correspondence relating to the points referred to above. We are concerned that such correspondence were not given to us by AHTC, although they clearly existed, were relevant to our review and we had specifically requested them.³⁶

5.14 In the premises, we share KPMG's concerns that FMSS had secured *de facto* appointment as the MA by 15 June 2011, although, by that time, it does not appear that any proper and/or thorough assessment had been undertaken as to whether FMSS would be suitable or up for the task, or whether replacing the incumbent CPG with FMSS would be in the best interest of the Town Council. It is also difficult to comprehend how before the proper procedures for waiver of tender had run its course, FMSS could be assured of the MA job, which led to FMSS taking over the ex-HTC staff and issuing the Letter of Intent as early as 15 June 2011. We will address further the issues surrounding the waiver of tender process in paragraphs 5.15 – 5.32 below. These circumstances clearly taint the appointment of FMSS right from the start. As such, it is unclear how such actions could be said to be acting in good faith and in the best interest of the Town Council.

5.15 The second issue arising from the above chronology of events was: why was the waiver of tender and approval of appointment of FMSS as MA only obtained on 4 August 2011 after, as KPMG found, FMSS had already effectively secured *de facto* appointment as early as 15 June 2011.³⁷ If indeed there was an intention right from the start for FMSS to assume the MA role, it is puzzling why the waiver of tender and approval of appointment was only sought much later in August 2011.

³⁵ See Section 5E below concerning our finding and observations on our document / information request to AHTC.

³⁶ See further Section 5E below concerning our finding and observations on our document / information request to AHTC.

³⁷ KPMG Report at 5.5.6.

- 5.16 In this regard, we would point out that, under best practices, a waiver of tender is, generally, frowned upon and, if effected, is only when fully justified. We note further that, specifically, under the context of the TCFR, the waiver of tender is in fact reserved for the most exceptional instances.
- 5.17 Sections 74(17) and (18) of the TCFR provide as follows:
“(17) Tenders may be waived by the Town Council or the chairman as authorised within the limits of his financial authority to incur expenditure where –
(a) the supply of goods or services is known to be only within the capacity of a sole agent or a specialist contractor;
(b) the urgency of the requirement makes it necessary; or
(c) it is manifestly necessary in the public interest to do so.
*(18) Waiver of tenders under paragraph (17)(b) or (c) shall only be used **under very special circumstances and must be fully justified.**”*
(emphasis in bold added)
- 5.18 It would be clear from the minutes of the 4 August 2011 Town Council meeting that the waiver of the tender for the 1st MA Contract in this case was made under Sections 74(17)(b) and (c) of the TCFR, i.e., respectively, the ground of urgency and public interest. As expressly provided in Section 74(18) of the TCFR, both grounds can only be invoked under “very special circumstances” and must also be “fully justified”.
- 5.19 A decision to waive tender under Sections 74(17)(b) and (c) of the TCFR should therefore never be lightly taken by a Town Council, let alone on a retrospective basis where, for all intents and purposes, the contract in question would have already been awarded to the vendor, before a proper consideration is undertaken by all Town Councillors if the waiver was fully justified in the circumstances.
- 5.20 Having regard to the above legislative framework, and for the following reasons set out below, our review of the waiver tender process showed that the grounds for waiver of tender under Sections 74(17)(b) and (c) of the TCFR were not satisfied in the circumstances of this case and that the entire waiver of tender process was unsatisfactorily and/or undermined in a number of aspects.

- 5.21 First, as shown above, by latest 15 June 2011, FMSS had already all but secured the MA job with the issuance of the Letter of Intent. However, the Town Council meeting to waive tender and to appoint FMSS was only held on 4 August 2011, three days after CPG had been released, two months after the incorporation of FMSS and almost (but less than) three months after the GE 2011.
- 5.22 In this regard, we requested correspondence and/or emails of the Town Council, including amongst and/or involving the Town Councillors, which may evidence discussions on the waiver of tender for this 1st MA Contract, but (again) these documents were not forthcoming.³⁸
- 5.23 Second, as KPMG has also noted, the reasons given for waiver at the 4 August 2011 Town Council meeting do not appear to justify such waiver.
- 5.24 At this meeting, the following reasons were told to the Town Councillors to justify a waiver of tender:³⁹
- (a) CPG had “*indicated their desire to be released from the agreement as soon as practicable*”.
 - (b) The Town Council’s IT systems needed to be replaced with the upscaled version of the one used by HTC as the service provider of the existing systems had given notice to withdraw them by end July. The deadline for the handover of Town Council management was also 1 August 2011. If a new MA was not appointed to prepare the systems and processes as soon as possible, “there would be serious disruption to residents’ services on 1 August 2011”.
 - (c) Given the “tight timeframe and urgency”, there was no time to call any tender for MA services and it was “in the public interest” that the calling of the tender be waived.
 - (d) FMSS “comprised of key staff familiar with estate and township management with proven track records”. The terms offered by FMSS “did not put the Town Council worse off than under the previous MA”.

³⁸ See Section 5E below concerning our finding and observations on our document / information request to AHTC.

³⁹ Minutes of 2nd AHTC meeting on 4 August 2011.

(e) “[Loh] is the Managing Director, and [How] is a Director/General Manager of [FMSS]”, and that Loh and How were husband and wife (although this latter fact was only expressly recorded at the 3rd AHTC meeting⁴⁰).

5.25 However, our review showed that these reasons put forward clearly did not justify a waiver of tender, especially on the stated grounds of urgency and public interest. To begin with, it was not so much that CPG had wanted out “as soon as practicable”; rather, the truth was that even *before* CPG had apparently expressed a preference to be released, some of the elected Town Councillors had already decided to appoint FMSS.

5.26 On any view, the alleged tight timeframe and urgency was not justified. Even if time was of essence, it would still have been open to the Town Council to call a tender as soon as CPG had indicated its preference to be released in late May 2011. We share KPMG’s views that it was open to the Town Council to retain CPG until a tender has been called and a MA appointed.⁴¹ It was also possible to conduct a tender on an expedited basis by shortening the period of tender notice.⁴² However, the Town Council chose not to exercise such viable alternatives.

5.27 The choice of FMSS on the basis of its “track record” and offered terms (which were supposedly not “worse off”), without a tender process, is questionable. FMSS’ expertise and track record were limited. FMSS was essentially made up of ex-HTC staff serving only one division, with no experience at all of running a bigger GRC. Indeed, KPMG found that this was a “*weak basis*” for claiming FMSS’ competency and suitability for running the significantly larger Aljunied GRC in addition to Hougang SMC.⁴³ FMSS’ proposed terms were also clearly not favourable to the Town Council (especially when compared to terms under the CPG Contract). As KPMG has found, even using CPG’s rate as an arbitrary method of pricing FMSS’ services (with no adjustments to account for differences in experience and manpower), given that FMSS had charged a flat fee of S\$1,114,283 (based on the actual staff expense for the preceding year of the former HTC), FMSS would already be 10% *more* expensive (i.e. **\$515,773** more expensive) than CPG for this period

⁴⁰ Minutes of 3rd AHTC meeting on 8 September 2011.

⁴¹ KPMG Report at 5.5.10 and 5.5.17.

⁴² Section 74(7) of the TCFR provides that the Chairman or his authorised officer may approve a shorter period of tender notice and the reasons for the shorted period shall be recorded and disclosed to the Town Council.

⁴³ KPMG Report at 5.5.11.

(assuming if CPG had also taken over Hougang Division which would have been possible under its contract).⁴⁴ More will be said about this later in paragraphs 5.33 to 5.48 below.

- 5.28 Finally, the disclosure of conflicts made at the meeting was inadequate. The Town Councillors were only told that Loh and How were directors⁴⁵ of FMSS and husband and wife⁴⁶. However, nothing was disclosed about FMSS' ownership and that Loh and How were the shareholders of FMSS. Some of the elected Town Councillors would have known of the ownership behind FMSS. Yet, the minutes show that they kept *silent* about this material fact. The circumstances therefore suggest that any disclosure made appeared to have been partial. The failure to address the conflicts of interest also led to the set-up of the flawed payment system to FMSS (and FMSI).
- 5.29 In the premises, the waiver of tender in these circumstances could hardly be justifiable and/or valid. Again, this taints the appointment of FMSS.

Conclusion

- 5.30 Given our observations/findings above, we are left with the conclusion that the appointment of FMSS as MA (and the award of the 1st MA Contract to FMSS by waiver of tender) was not in accordance with the procedures prescribed in the TCFR. Additionally, given the possibility that this arrangement was by design, the appointment may be improper (and not because the Town Council had no other alternatives).
- 5.31 We share KPMG's findings that the manner the tender was waived in the circumstances leads to the conclusion that right from the start, the WP had wanted to "import expertise" from Hougang.⁴⁷ This was regardless if CPG had wanted to leave or stay, if the Town Council had alternatives, and/or if the "expertise" from Hougang (in the incarnation of FMSS) was competent to take on the job. By already deciding at the outset that FMSS should take over and thereafter allowing FMSS to secure *de facto* appointment as MA by 15 June 2011, the subsequent process of waiver of tender was very much a fruitless and/or meaningless exercise, with a foregone conclusion right from the start. The entire process, as KPMG noted, was unsatisfactory. In our view, the manner which FMSS was appointed

⁴⁴ KPMG Report at 5.5.8-5.5.9.

⁴⁵ Minutes of 2nd AHTC meeting on 4 August 2011, para 4.1.

⁴⁶ Minutes of 3rd AHTC meeting on 8 September 2011, para 2.5.

⁴⁷ KPMG Report at 5.5.19.

as MA clearly involved a circumvention of the relevant provisions and safeguards in the TCFR governing waivers of tenders, and can hardly be said to be in the best interest of the Town Council or done in good faith.

5.32 Finally, we would add that the appointment of FMSS as the MA for 1 year without tender for a new and enlarged WP-controlled Town Council is significant, and may have had a bearing on the award of the (subsequent) 2nd (3-year) MA Contract in FY2012/13, although this time round, a tender was called:

- (1) By this time, FMSS (instead of CPG) would be the incumbent MA, and would naturally enjoy an advantage of incumbency (*cf.* other potential new vendors with no experience working with this Town Council). If a tender had been called right from the start for the 1st MA Contract, FMSS and the other potential vendors would have been on an equal footing.
- (2) Conversely, we also cannot rule out the possibility that potential new vendors may be hesitant putting in a bid for the tender for the 2nd MA Contract, for two reasons:
 - (a) First, they may be concerned that if they do win the bid, they would be taking over from FMSS, a company with no track record, and there would be no assurance that FMSS had done a proper / good job in the past year, with the risk that they would have to resolve any outstanding issues or problems left unaddressed by FMSS; and
 - (b) Second, given that the Town Council had chosen to waive the tender the first time round to appoint FMSS, potential new vendors may possibly perceive FMSS (which was the Town Council management's default choice and now the incumbent MA) as being *favoured* by the Town Council management, and, accordingly, it would not be worth their while putting in a bid in the tender. Indeed, although two other companies collected the tender documents, they decided against putting in any bid.

The terms of both the 1st and 2nd MA Contracts benefited the Conflicted Persons at the expense of the Town Council

5.33 As shown above, KPMG has found that FMSS and FMSI charged significantly higher fees (than other (more experienced) vendors and compared to other Town Councils), and there were many instances of over-payments and/or unjustified payments to FMSS and/or FMSI. We do not seek to traverse the same grounds as KPMG and review the numbers put forward by KPMG for over-charging and/or improper payments to FMSS and FMSI.

5.34 Our review of the second area of concern identified for the RPTs was instead focused on an explanation for such over-charging and wrongful payments. Given their frequency and the significant sums involved, the question was whether such over-charging and wrongful payments were mere omissions and/or mistakes, or was it a case that the Conflicted Persons, in particular in the terms FMSS proposed for its appointment as MA in both the 1st and 2nd MA Contracts, had set out to benefit themselves at the expense of the Town Council (in breach of their duties to the Town Council), and had deliberately put forward increased rates?

5.35 The following could have impacted how the Conflicted Persons were dealing with the wrongful payments in paragraph 5.34:

(a) First, they knew that the WP was partial to and favoured the appointment of FMSS as MA⁴⁸; and

(b) Second, given their appointment as the GM and Secretary, How and Low also knew that they would be placed fully in charge of approving payments to the MA (and effectively themselves), with little or no oversight from the Town Councillors.⁴⁹

The 1st MA Contract

5.36 It appears from KPMG's findings that FMSS' FY 2011-12 MA fees were significantly higher than CPG because it included an additional and separate MA fee component to cover the staff cost of all existing staff of the former HTC on an reimbursement basis.

⁴⁸ KPMG Report at 5.5.19.

⁴⁹ KPMG Report at 5.2.1 and 5.6.1.

- 5.37 It is unclear why after adopting CPG rates (which would have included manpower costs) and adjusting for revised residential dwelling units, commercial units, hawkker stalls and parking lots, FMSS was still entitled to charge a separate additional fee to cover the manpower costs of the existing staff of the former HTC, which were all brought over to run AHTC (and formed the new MA team for AHTC).
- 5.38 This fee structure (set out in the Letter of Intent) appears to have an element of “double charging”:
- (a) The CPG’s MA rates would have provided for a certain level of headcount (and would have included a component for staff salaries based on such level of headcount). It is unclear to us if the Hougang team brought over to run AHTC (including any new hires) consisted of the same level of headcount. It seems unlikely that the Hougang team in respect of a single division would be comparable in size to the manpower team provided by CPG in respect of a bigger Aljunied GRC. We had requested from the Town Council information on headcount to verify this, but such information was not provided to us by the Town Council.
 - (b) If the Hougang team brought over did not match up in numbers to the original CPG team, there would clearly be no basis for FMSS to be paid the same CPG’s MA rates (leaving out adjustments for experience and competency), let alone an *additional* component (on an *reimbursement* basis) for all the staff costs of the former HTC. Even if the headcount of the Hougang team was comparable to the CPG team, this would still not justify such additional component. The additional component (on an *reimbursement* basis) would effectively mean that FMSS could be doubly-charging the Town Council for its manpower costs.
- 5.39 Such unjustified element in FMSS’ fee structure was not detected by the Town Council and/or was not queried / objected to by the Town Council. There was clearly a lack of close scrutiny of the terms put forward by FMSS. As shown above, the WP had already decided to appoint FMSS as MA from the start. In our view, their partiality and preference towards FMSS as the MA would have clearly compromised the level of scrutiny they would impose on the terms eventually put forward by FMSS.

The 2nd MA Contract

- 5.40 For the tender for the 2nd MA Contract, FMSS had put forward even higher rates, i.e. a marked price increase of 17% (over CPG's rates). Notwithstanding that a tender was called this time, instead of trying to be more competitive in its pricing, FMSS, a company with hardly any track record, did the very opposite – i.e. it significantly raised its rates. What is especially telling is that KPMG has found that the justifications given by FMSS for the higher rates put forward turned out to be completely wrong and/or false.⁵⁰ It appears that FMSS increased its rate in its tender bid, but did not think this would reduce its chances of winning the tender.
- 5.41 The only reasonable explanation for this is that FMSS will benefit from incumbency. Like the 1st MA Contract, FMSS must have also thought that it would be able to get away with its increased rates.
- 5.42 Even though the elected Town Councillors had assessed the sole bid put forward by FMSS in the tender for the 2nd MA Contract, it appears that they were already inclined to award the 3-year MA contract to FMSS, even if the terms put forward by FMSS were not necessarily in the best interests of the Town Council. This is clearly borne out by the following:
- (a) As alluded to above, FMSS' proposal had put forward a marked price increase. FMSS' price was also at the high end of the scale of management charges at other Town Councils.⁵¹ This should have been a red flag to the Town Councillors, and would have alerted the Town Councillors to exercise greater scrutiny of FMSS' proposal.
 - (b) However, the Town Councillors who sat on the Tender Evaluation Committee ("TEC") (i.e. SL, who was chairman of the TEC, Pritam Singh and Muhamad Faisal Bin Abdul Manap) have failed to exercise proper due diligence in scrutinising FMSS' proposal. Although some of the justifications given by FMSS for the higher rate were wrong and/or false,⁵² the TEC still concluded that the price increase was acceptable and recommended the award of the tender to FMSS.

⁵⁰ KPMG Report at 5.5.36 and 5.5.38.

⁵¹ KPMG Report at 5.5.41.

⁵² KPMG Report at 5.5.36, 5.5.38, 5.5.39 and 5.5.42.

- (c) The Tender Evaluation Report (“TER”) prepared by the TEC was also completely *silent* on the ownership behind FMSS, notwithstanding that the details of FMSS’ ownership were clearly known to some of these Town Councillors and were, in any event, included in an ACRA search enclosed in FMSS’ tender submission documents. It appears that these Town Councillors had deliberately not wanted this fact to be highlighted in the TER and to the other Town Councillors, who would be relying on the TER to make the decision on whether to award the 2nd MA Contract to FMSS.
- (d) The above prompted KPMG in its report to conclude that the level of assessment conducted for such a significant contract was simply “*superficial*”.⁵³

5.43 Again, the only explanation for this can only be that the Town Councillors who sat on the TEC were partial to FMSS and, regardless of the terms put forward by FMSS, they were already pre-disposed to re-appointing FMSS as the MA. Naturally, they would not closely scrutinise FMSS’ proposal, as they were keen to conclude that FMSS’ terms were “reasonable” and to recommend to the other Town Councillors the award of the tender to FMSS.

Conclusion

5.44 Our findings above clearly suggest that the Conflicted Persons had set out to benefit themselves in the terms put forward by FMSS for its appointment as MA, in breach of their duties owed to the Town Council. All amounts that have been over-paid to FMSS (arising from increased rates and/or over-charging), as KPMG had identified in the KPMG Report, are clearly improper payments that ought to be recovered.

5.45 It appears to us that the Conflicted Persons were only able to get away with such conduct, because the relevant elected Town Councillors had wholly failed to exercise proper due diligence and supervision in the award of the two MA Contracts to FMSS. Accordingly, they should also bear personal responsibility for such improper payments made to FMSS.

⁵³ KPMG Report at 5.5.43.

Conclusion – How our findings on the two identified areas of concern affect the payments made to FMSS

- 5.46 We have shown above that the appointment of FMSS as MA was not only improper and not in accordance with the TCFR, it was also clearly by design. It also appears that FMSS, in the terms put forward in its two MA Contracts, had sought to benefit the Conflicted Persons at the expense of the Town Council.
- 5.47 In the premises, coupled with the flawed payment approval system for FMSS at the Town Council where the Conflicted Persons themselves held key functions in the approval process (with little or no oversight from the Town Councillors), there can be no assurance that payments made to FMSS under the MA Contracts were proper and/or fully justified.
- 5.48 In our view, the consequences arising from our findings are as follows:
- (a) The tainted circumstances surrounding the set-up of FMSS and appointment of FMSS as MA would put the propriety of *all* payments made under the two MA Contracts to FMSS into question.
 - (b) Accordingly, it should be for FMSS to fully account for all the payments received under the MA Contracts and to justify these payments. In this regard, we note also from the KPMG Report that KPMG was unable to fully identify all improper payments made to FMSS (and FMSI) given that the flawed payment approval system / control failures which allowed improper payments would also tend to conceal instances of improper payments.⁵⁴ In the circumstances, a proper inquiry should be held (for instance, through legal proceedings whereby FMSS is required to fully account and justify all payments it received) to determine the improper payments made to FMSS which ought to be recovered.
 - (c) Those within the Town Council who had brought about this present situation, where improper payments under the above circumstances have been determined, ought to be fully responsible for all losses the Town Council may suffer⁵⁵.

⁵⁴ KPMG Report at 5.4.1.

⁵⁵ KPMG Report at 4.7.1 and 4.7.2.

- (d) Apart from personal civil liability, it also appears to us (and are advised) that the circumstances collectively may give rise to inferences that a deliberate course of action could have been taken by some within the Town Council to appoint and install FMSS as the MA, and to benefit FMSS (and the Conflicted Persons) with such award of MA contract. In our view, written correspondence and/or emails amongst and/or involving the Town Councillors and/or the Conflicted Persons may help to shed further light on the full circumstances and context surrounding the appointment of FMSS as the MA (including the intentions of the Town Councillors and/or Conflicted Persons), but unfortunately, save for the limited documents we received from HDB (and not the Town Council) (see paragraph 5.13 above), the full set of these correspondence were apparently not available and/or not given to us, and we are unable to draw further conclusions in this regard (see further Section 5E below). We note that any intentional action may give rise to potential criminal offences under the Penal Code, including criminal breach of trust (under Sections 405 and 409 of the Penal Code) or the offence of public servant disobeying a direction of law (under Section 166 of the Penal Code). However, it is beyond the scope of our review to look into potential criminal liability. It suffices for us to simply state here that the circumstances may warrant further investigations by the relevant authorities as to such potential offences.

B. Review of Contracts and Tender Evaluation Reports (“TER”)

Background

- 5.49 The procurement of a Town Council is usually done by way of quotations or tenders. The TCFR mandates, as a general rule, that for execution of works or for any single item of stores or services estimated to cost more than \$70,000 a tender should be called (Rule 74(1) TCFR). There are limited exceptions to this rule, which the TCFR makes clear should only be exercised sparingly and in exceptional circumstances.
- 5.50 Contracts procured by way of the tender process would therefore involve significant sums of money. In the premises, an area where we have focused our review of past payments was to review all PE-related contracts awarded through the tender process (save for the 2nd MA Contract, which has been subject to detailed review in the KPMG Report) to establish, amongst others, if these contracts were properly entered into (and where applicable, in accordance with the relevant provisions in the TCFR) and/or were in the best of interest of the Town Council. In our view, apart from the significant value of these transactions (some of which exceed more than a million dollars), another reason why such review for PE would be of significant importance is that it does not appear from the KPMG Report that KPMG had focused specifically on tenders related to PE and/or covered all such tenders in its review.
- 5.51 The legislative framework for the tender process for a Town Council’s procurement or expenditure is set out in the TCFR. For purposes of this section of our report, the following key provisions of TCFR would be relevant:
- (a) Rule 74(1) – *“Unless waived under paragraph (17), tenders shall be invited for the execution of works or for any single item of stores or services estimated to cost more than \$70,000.”*
 - (b) Rule 74(13) – *“Tenders received shall be placed before the Town Council, the chairman, or any committee appointed by the Town Council for the purpose, who shall, except as provided under paragraph (15), accept the lowest tender meeting specifications within their respective financial authority under rule 34(1).”*

- (c) Rule 74(15) – *“The Town Council or the chairman, within the financial limit authorised by the Town Council, may for reasons to be disclosed with the acceptance, accept a tender which is not the lowest tender.”*
- (d) Rule 74(16) – *“The circumstances and reasons for not accepting the lowest tender which meets the specifications fully or very substantially must be fully justified and shall be recorded and open to scrutiny by the auditor.”*
- (e) Rule 74(17) – *“Tenders may be waived by Town Council or the chairman as authorised within the limits of his financial authority to incur expenditure where:-*
 - (i) *the supply of goods or services is known to be only within the capacity of sole agent or a specialist contractor;*
 - (ii) *the urgency of the requirement makes it necessary; or*
 - (iii) *it is manifestly necessary in the public interest to do so.”*

General observations on the Town Council’s use of the tender process in practice

5.52 We understand from Mr Philip Lim, the Town Council’s Contracts Manager, that the Town Council’s use of the tender process in practice to be as follows.

5.53 Usually, for routine estate work which originally has a contract, the Town Council will call for a tender before the expiry of the contract, even though the total costs of some of these routine estate works may be estimated to fall below the threshold of \$70,000 stipulated in Rule 74(1) of the TCFR. The reason for calling tenders in cases where the cost is estimated to be below \$70,000 is to ensure that the Town Council may be able receive more competitive quotes from a larger number of vendors and that the value of the contract awarded would be in the best interest of the Town Council.

5.54 For non-routine work, the Contract Manager or Contract and Procurement Executive from the Contract Department of the Town Council will have verbal discussions with the Town Council’s existing contractors to perform a preliminary assessment of the costs estimated to be incurred. If the costs is estimated to exceed \$70,000, AHTC will call for a tender. However, such verbal discussions are not documented and/or minuted.

5.55 In our view, the practice of the Town Council set out above does not appear to be applied consistently across the board and/or is not entirely in accordance with the TCFR for the following key reasons:

- (a) First, the TCFR has struck a balance between the costs and efforts required to undertake a public tender exercise and the need to ensure that the Town Council obtains the best value for any significant expenditure that it undertakes. Bearing this in mind, for work estimated to fall below \$70,000, it does not appear that the costs and efforts of calling a tender would be justified in the circumstances, and it would be sufficient to protect the interest of the Town Council that the procurement of such works be carried out pursuant to the quotation process (*cf* the public and more elaborate tender process) set out in Rule 73 of the TCFR. For the quotation process, we note that a minimum of 3 quotations should be obtained (see Rule 73(3) of the TCFR), and there is no limit as to the number of quotations the Town Council may choose to obtain. It is therefore still open to the Town Council to procure as many quotations as it wants to ensure competition.
- (b) Second, we find it inconsistent that the Town Council would be prepared to call tenders for routine works that are estimated to cost less than \$70,000 (although not at all required by the TCFR), but yet was readily prepared to waive tender (and to do so only *retrospectively*) in respect of the 1st MA Contract, which is of a very significant contract value of \$5,428,609. We have already set out our views on this in Section 5A above. For any Town Council, the MA contract is likely to be one of the most significant transactions that it would undertake. It therefore seems inconsistent that, on the one hand, the Town Council, in a bid to ensure that the Town Council would receive competitive quotes and that the value of the contract would be in the best interest of the Town Council, would be prepared to incur costs and expand efforts to carry out the tender process for works estimated to cost less than \$70,000, but yet, on the other hand, it would be readily prepared to waive the tender in respect of the procurement of MA services, which no doubt would be of very significant value.
- (c) Third, in relation to the non-routine estate works, all oral discussions with contractors on the estimate costs of such works should, as a matter of good practice, be documented and/or minuted. Given that these discussions would ultimately form

the basis for the Town Council's decision whether to call for a tender or not, it would be important for such discussions to be recorded such that the relevant decision-makers (including the relevant Town Councillors) would be able to make the best informed decision whether a tender should be called or not.

Basis of selection and review procedures for PE-related contracts awarded by tender

5.56 On 25 August 2016 and 11 October 2016, PwC was provided with the following contractual documents from AHTC (through KPMG):

- (a) A list of active contracts solely relating to PE which were handed over to PRPTC during the operational handover on 30 November 2015;
- (b) A list of expired contracts solely relating to PE which AHPETC took over from PRPTC on 1 May 2013⁵⁶ and expired during the period when PE was under AHPETC; and
- (c) The TERs pertaining to such contracts solely relating to PE (which were awarded by tender).

5.57 Subsequently, on 31 October 2016, AHTC made available to us the following further contractual documents:

- (a) PE-related contracts (that are applicable to the Review Period) which in addition to PE, relate to other divisions of AHPETC, including those contracts handed over from PRPTC (previously in 2013, following the by-election in January 2013) and the contracts entered into by AHPETC; and
- (b) The TERs for such PE-related contracts (which were awarded by tender).

5.58 Accordingly, from the list of active contracts provided by AHTC, they can be categorised into two categories, namely:

- (a) Contracts for all divisions of AHPETC (including PE) or PE-related contracts; and
- (b) Contracts that solely relate to only PE.

⁵⁶ AHTC took over Punggol East Constituency from PRPTC on 1 May 2013 after the by-election in January 2013.

5.59 We understand from Mr Philip Lim that for the contracts with a contract number starting with the prefix of “OT⁵⁷”, these would be the contracts which were entered into by AHPETC. For the contracts with a contract number starting with the prefix “PE”, these would be contracts entered into by PRPTC. Based on this understanding, we were able to identify the contracts entered into by AHPETC and to focus our review on these contracts. We did not include the contracts entered into by PRPTC as part of our scope of review.

5.60 In this regard, we note also that pursuant to the Second Schedule of the Town Councils (Declaration of Towns) Order 2015 (GN No. S 577/2015⁵⁸) (“Declaration Order 2015”), contracts related to PE entered into by AHPETC and handed over from AHTC to PRPTC on 30 November 2015 would continue to be in force until the expiry of the contracts. PRPTC cannot terminate these contracts unless it is permitted under the conditions of these contracts. The relevant provision from the Second Schedule of the Declaration Order 2015⁵⁹ provides as follows:

“As from 1 December 2015 - ... all deeds, agreements, instruments and working arrangements subsisting immediately before that date relating to or connected with the transferred undertaking continue to be in force on and after that date and are enforceable by or against the Town Council for the Town of Pasir Ris-Punggol as if, instead of the Town Council for the former Town of Aljunied-Hougang-Punggol East, the Town Council for the Town of Pasir Ris-Punggol had been named or had been a party to the deeds, agreements, instruments or working arrangements; ... ”

5.61 To review the live PE-related contracts entered into previously by AHPETC (by way of the tender process) for improper payments, the following work and/or procedures were performed.

5.62 First, we ascertained the completeness of the listing of contracts provided by AHTC, by performing the following work:

(a) We obtained from PRPTC the list of contracts handed over from PRPTC to AHPETC on 1 May 2013 and compared this listing to the listings of contracts provided by AHTC (as described in paragraphs 5.56 and 5.57 above). We noted that the list of

⁵⁷ We understand from Narizzah that “OT” stands for “open tender”.

⁵⁸ In exercise of the powers conferred by section 3 of the Town Council Act, the Minister for National Development makes Town Councils (Declaration of Towns) Order 2015 (S 577/2015) and comes into operation on 1 October 2015.

⁵⁹ In exercise of the powers conferred by section 3 of the Town Council Act, the Minister for National Development makes Town Councils (Declaration of Towns) Order 2015 (S 577/2015) and comes into operation on 1 October 2015.

contracts handed over from PRPTC were included in the listings provided by AHTC;
and

- (b) We also checked and confirmed that there is a contract in place and a tender exercise was carried out for all vendors with total transactions exceeding S\$70,000 (for transactions involving PE) during the Review Period.

5.63 Second, from our review of the TERs for such PE-related contracts, we identified tenders that met either one of the following two criteria:

- (a) Tender(s) that was awarded to a single bidder; or
- (b) Tender(s) that was not awarded to the lowest bidder.

5.64 Third, based on the above selection, we performed the following checks:

- (a) For tenders awarded to a single bidder, we checked whether the Town Council had performed reasonableness checks on the tender price, such as comparing the tender price against its existing contract price and/or the price contracted for the same / similar nature of work in other divisions, before the tender was awarded; and
- (b) For tenders that were not awarded to the lowest bidder, we requested all supporting documents to ascertain the reasons for the award of the tender at a higher price to another bidder.

5.65 In addition, we understand that the contracts awarded by tender usually provide AHPETC with an option to extend the contracts to a maximum allowable period⁶⁰. In this regard, we have performed the following further checks:

- (a) For each contract awarded by tender, we checked whether there was a preceding contract;
- (b) Where there was a preceding contract, we compared the new contract price against the previous contract price;
- (c) Where the new contract price was higher than the previous contract price, we would check whether the preceding contract had been extended to the maximum allowable period by AHPETC; and

⁶⁰ For the contracts entered into by AHPETC, Clause 8(iii)(a) of Particular Conditions stated that "At any time prior to the expiry of the Contract Term, the Employer (i.e. Town Council) may in writing to the Contractor (i.e. Vendor) extend the Contract Term up to any period/periods but not exceeding a total of 12 months. Such extension is not limited to one time but can be exercised several times at the discretion of the Employer and the Contractor shall agree to such extension/extensions. The Contractor shall be bound by the Contract price and Schedule of rates and all the terms and conditions of this Contract for all works instructed within the extended Contract Term and shall not have any right to claim loss, expenses cost or damages in respect of any such extension in the Contract Term. No extension in the Contract Term required by the Employer shall vitiate the Contract."

- (d) For such preceding contract not so extended, we requested all supporting documents to ascertain the reasons for not extending the preceding contract but proceeding (instead) with a new tender which resulted in the higher priced new contract.

5.66 Based on our review, we set out our findings in the following three categories:

- (a) Tenders awarded to a single bidder;
- (b) Tenders not awarded to the lowest priced bidder; and
- (c) Contracts that were not extended to the maximum allowable period.

A. *Tenders awarded to a single bidder*

Red-Power Electrical Engineering Pte Ltd (“Red-Power”) – Maintenance of transfer and booster pumps, automatic refuse chute flushing system and roller shutters (OT/0276/12)

5.67 Prior to Red-Power being engaged as the contractor, the maintenance of transfer and booster pumps, automatic refuse chute flushing system and roller shutters⁶¹ for PE were provided by EM Services Pte Ltd (“EM Services”), which was contracted under PRPTC. AHPETC had exercised the option provided in the contract to extend the contract with EM Services to a maximum allowable period of 12 months. After the contract with EM Services expired on 31 March 2015, AHPETC did not call for a new tender / quotation for PE in respect of such services. Instead, AHPETC included PE under its existing contract with Red-Power, which was the contractor engaged for some of the other divisions of AHPETC, namely, Eunos, Bedok Reservoir Punggol-Bedok Reservoir Road and Kaki Bukit⁶². This contract with Red-Power was awarded by AHTC on 7 June 2012, before PE was handed over to AHPETC.

5.68 We understand from Mr Philip Lim that the reason why PE was included under AHPETC’s existing contract with Red-Power was such that upon the expiry of the contract with Red-Power (in the future), AHPETC would (supposedly) be able to achieve better economies of

⁶¹ Maintenance of transfer pumps and booster pumps are monthly routine estate works; maintenance of automatic refuse chute flushing system and roller shutter doors are ad hoc services.

⁶² Paya Lebar division was contracted with Tong Lee Engineering Works Pte Ltd (OT/0274/12); Hougang SMC was contracted with Red-Power under a separate contract (OT/0297/13). However, contract OT/0274/12 was not included for comparative purposes in the TER for contract OT/0276/12 with Red-Power.

scale in terms of (better) pricing, when they call for a new tender for the provision of such services in respect of a larger area and/or greater number of divisions.

5.69 From the TER in relation to this contract with Red-Power, we noted that Red-Power was the single bidder back in the tender conducted in 2012. As stated in the TER, AHTC had compared the tender rates submitted by Red-Power against the existing / incumbent two contractors' rates and the lowest tender rates received for other divisions of AHPETC, namely, the Hougang area of Bedok Reservoir-Punggol and Serangoon. Based on the comparison, we note that the tender prices of the two main services provided by Red-Power, namely, the monthly routine maintenance of transfer pumps and booster pumps, were significantly (and manifold) higher than these other contractors. In one instance, Red-Power's rate was in fact 775% higher than the one of the existing contractors. The details of the comparison of rates reflected in the TER are as follows:

(a) Transfer Pumps

Contract Period	Vendor	Divisions	Rate per unit	Compared to Red-Power
Existing contractors for AHTC when it called for this tender in April 2012:				
1 July 2009 to 30 June 2012	Digo Corporation Pte Ltd	Bedok Reservoir-Punggol & Serangoon	\$0.99	Red-Power higher by 607%
1 July 2009 to 30 June 2012	Terminal 9 Pte Ltd	Kaki Bukit	\$0.80	Red-Power higher by 775%
The lowest quote received for the tender called at the same timing as Red-Power, but for other divisions, as stated in the TER of Red-Power:				
1 July 2012 to 30 June 2015	Tong Lee Engineering Works Pte Ltd	Hougang area of Bedok Reservoir-Punggol and Serangoon	\$2.00	Red-Power higher by 250%
Tender received from Red-Power:				
1 July 2012 to 30 June 2015; subsequently extended to 30 June 2017	Red-Power Electrical Engineering Pte Ltd	Eunos, Bedok Reservoir Road of Bedok Reservoir-Punggol and Kaki Bukit (PE included under Red-Power's contract effective from 1 April 2015)	\$7.00	Not applicable

(b) Booster Pumps

Contract Period	Vendor	Divisions	Rate per unit	Compared to Red-Power
Existing contractors for AHTC when it called for this tender in April 2012:				
1 July 2009 to 30 June 2012	Digo Corporation Pte Ltd	Bedok Reservoir-Punggol & Serangoon	\$0.74	Red-Power higher by 508%
1 July 2009 to 30 June 2012	Terminal 9 Pte Ltd	Kaki Bukit	\$0.80	Red-Power higher by 463%
The lowest quote received for the tender called at the same timing as Red-Power, but for other divisions, as stated in the TER of Red-Power:				
1 July 2012 to 30 June 2015	Tong Lee Engineering Works Pte Ltd (“Tong Lee”)	Hougang area of Bedok Reservoir-Punggol and Serangoon	\$1.50	Red-Power higher by 200%
Tender received from Red-Power:				
1 July 2012 to 30 June 2015; subsequently extended to 30 June 2017	Red-Power Electrical Engineering Pte Ltd	Eunos, Bedok Reservoir Road of Bedok Reservoir-Punggol and Kaki Bukit (PE included under Red-Power’s contract effective from 1 April 2015)	\$4.50	Not applicable

5.70 Besides the rates for the maintenance of the transfer pumps and booster pumps, we note that there was no comparison performed for the rates for the maintenance of automatic refuse chute flushing system and roller shutters put forward by Red-Power. Accordingly, it does not appear to us that any reasonableness checks on the tender price were undertaken by the Tender and Contract Committee in relation to such services.

5.71 Except for the rates of Digo Corporation Pte Ltd (“Digo”), we have verified the rates of the other contractors stated in the tables above (as reflected in the TER for Red-Power’s contract) with the terms of the actual contracts of these contractors. We understand from Mr Philip Lim that the contract with Digo was entered into by the previous Town Council, namely, Aljunied Town Council, and AHTC does not have a copy of this contract. According to Mr Philip Lim, this contract could have been misplaced during the handover process from Aljunied Town Council to AHTC. As such, we are unable to verify Digo’s rates (as stated in the TER) with its contract.

- 5.72 We understand from Mr Philip Lim that the contracts with the existing / incumbent contractors, Digo and Terminal 9 Pte Ltd (“Terminal 9”), were not extended, although both contracts provided the usual option for AHTC to extend the contract period by an additional maximum period of 12 months (we have verified the option with respect of Terminal 9’s contract, but not Digo’s contract, given that, as mentioned above, AHTC was unable to provide Digo’s contract to us as it appears to have been misplaced). Mr Philip Lim was unable to provide us with an explanation as to why AHTC did not exercise the option with the existing / incumbent contractors, which would have allowed the Town Council to enjoy the significantly lower rates of these contractors for an additional 12 months. We understand from him that he was, in any event, not involved in AHTC during this period of time, given that he had only joined AHTC in 2014 (and would therefore have limited knowledge regarding the tenders awarded before 2014). In any event, there was also nothing on record which provided an explanation and/or justification for not exercising the options under these two contracts.
- 5.73 Notwithstanding that the rates offered by Red-Power were significantly higher than the other contractors as shown in the comparison above, the TER did not provide any cogent reasons for awarding the tender to Red-Power, save that Red-Power had obtained satisfactory ratings for contracts / projects it had undertaken in the past. Apart from the TER, we have also not seen any other documentation which would justify and/or support the award of the tender to Red-Power.
- 5.74 Mr Philip Lim proffered that a possible reason why the Tender and Contract Committee decided to award the tender to Red-Power despite the higher rates was because the services required under the tender comprised of routine estate works which needed to be carried out on a monthly basis, and the Town Council could not afford any delay in the carrying out of such works. Such delay could occur if they were to reject Red-Power’s bid and to call for a fresh (second) tender, as there may not be sufficient time for such a new tender to be called. He added that if AHTC rejected the bid submitted by Red-Power and called for another tender, there could also be the risk that Red-Power may then decide not to submit a bid in the second tender, and the Town Council may well end up with no bidder.

- 5.75 In our view, these reasons are insufficient to justify the award of tender to the sole bidder, Red-Power, at the significantly higher rates put forward by Red-Power. To begin with, these reasons are not documented or recorded anywhere, and it is therefore unclear to us if they were indeed the reasons which the Tender and Contract Committee considered. Second, and in any event, the reasons are not justified because, as shown above, the Town Council had the choice of extending the contracts of the existing / incumbent contractors by 12 months but it chose not to exercise such options. Exercising the options would have allowed the Town Council to enjoy the significantly lower rates for a further year, while, at the same time, providing the Town Council with the additional time required to call a second tender. We would add that, in any event, Rules 74(6) and (7) of the TCFR allow for a Town Council to expedite the tender process, by reducing the period of tender notice.
- 5.76 Additionally, we also note that the TER was only signed-off by the Chairman of AHTC and there was no written or documented evidence that all/majority of the members of the Tender and Contract Committee⁶³ had approved of the award of tender and/or accepted the tender. The Town Council was unable to provide us with any evidence of approval from the other members of the Tender and Contract Committee. This would be in breach of Rules 74(13) and (14) of the TCFR which provide for a tender to be accepted by the Tender and Contract Committee (if one has been appointed by the Town Council for this purpose) and not by the Chairman only.
- 5.77 In the premises, it appears to us that if the Town Council had taken a more prudent approach in this instance, the Town Council could have avoided paying significantly higher fees and/or enjoyed further substantial cost-savings. In our view, the award of the tender to Red-Power at such significantly high rates (where there appeared to be other (cheaper) alternatives opened to the Town Council) in the circumstances described above would not appear to be in the best interest of the Town Council.
- 5.78 Separately, in our review, we also note that both Red-Power and another vendor of the Town Council (providing similar services), Tong Lee Engineering Works Pte Ltd (“Tong Lee”), had the same contract period, i.e. 1 July 2012 to 30 June 2015. However, PE was included under the contract with Red-Power instead of Tong Lee, even though Tong Lee

⁶³ Tender and Contract Committee members consist of Pritam Singh (Chairman), Sylvia Lim, David Chua (resigned on 1 December 2015), Kenneth Foo and Yip Tai Aun (appointed on 1 October 2015).

had charged significantly lower rates as compared to Red-Power. We understand from Mr Philip Lim that Tong Lee had allegedly declined to extend its services to PE as it did not have the sufficient resources to support this additional division. We requested Mr Philip Lim for any form of communication and/or correspondence between AHTC and Tong Lee which may support and/or evidence this reason given by Tong Lee, but was informed that Tong Lee had only conveyed this to AHTC verbally. Such verbal communication by Tong Lee was also not recorded or minuted by the Town Council. In the premises, we are unable to verify if the Town Council did in fact approach Tong Lee and/or whether Tong Lee had indeed declined to extend the services to PE.

5.79 On the assumption that PE could have and was included under the contract with Tong Lee instead of Red-Power (and that Tong Lee’s contract, as per the usual option, could be extended by a further year – and, indeed it was extended for a year up to 30 June 2016 but eventually terminated earlier on 31 March 2016), PE would have saved \$25,920 in fees for the period from 1 April 2015 to 31 March 2016, as follows:

Vendor	Units of transfer pumps in PE ⁶⁴	Rate per unit per month	Total cost	Units of booster pumps in PE ⁶⁶	Rate per unit per month	Total cost
Red-Power	270	\$7.00	\$1,890	270	\$4.50	\$1,215
Tong Lee	270	\$2.00	\$540	270	\$1.50	\$405
Difference in cost per month (A)			\$1,350			\$810
Number of months affected⁶⁵ (B)			12			12
Total difference (A) x (B)			\$16,200			\$9,720
Total cost savings						\$25,920

5.80 Finally, we note that KPMG had performed related party checks on the shareholders and directors of Red-Power, in relation to the Town Councillors and/or AHPETC’s key management personnel (namely the General Manager, Contract Manager, and Finance Manager) for the Review Period, and no exception was noted.

⁶⁴ Units of transfer pumps and booster pumps in PE were extracted from the invoices and work orders from Red-Power.

⁶⁵ Period whereby PE was affected by the higher price in Red-Power contract was from 1 April 2015 to 30 November 2015.

Neela Electrical System (“Neela”) – Maintenance of Roller Shutters and servicing of Electrically Operated Roller Shutter Doors at Bin Compounds and Centralised Refuse Chute Chambers (OT/0350/15)

- 5.81 Neela was awarded the tender for maintenance of roller shutter and servicing of electrically operated roller shutter doors at bin compounds and centralised refuse chute chambers for PE for a period of three years from 15 August 2015 to 14 August 2018. From the TER of this tender, we note that Neela was the single bidder and the rates offered by Neela was at 10% higher than the Schedule of Rates provided by HDB to all Town Councils in relation to certain standard repair and maintenance works (the “Schedule of Rates”).
- 5.82 We note from our review of the TER that the Tender and Contracts Committee had interviewed Neela before awarding the contract to Neela. We reviewed the minutes of this meeting between the Tender and Contracts Committee and Neela held on 22 July 2015, and noted that Neela had informed that while they have no experience in Roller Shutter maintenance and repairs, the nature of work was similar to the other services (i.e. electrical and mechanical engineering work) that they were providing. It was also indicated in these minutes of meeting that Neela has committed to provide sufficient resources during the three-year contract period.
- 5.83 Subsequent to the interview with Neela, the Tender and Contract Committee⁶⁶ held a meeting thereafter on the same day (i.e. 22 July 2015) to discuss the tender interview with Neela. From the minutes of meeting of the Tender and Contract Committee as well as the TER, we note that the Tender and Contract Committee had decided to award the tender to Neela as the Town Council had previously engaged Neela for an ad-hoc urgent repair job of Roller Shutters at PE and Neela had proven itself to be reliable through this single instance of work done and their tender rates of 10% increment to the Schedule of Rates was comparable to Hougang SMC, which was a 12% increment to the Schedule of Rates. However, when we sought to verify such work performed by Neela, the Finance Department was unable to provide us with the information and supporting documents (i.e. payment documents, invoice, Work Instructions (“WI”) and Work Orders (“WO”) for such urgent repair work apparently performed by Neela. Accordingly, we were unable to verify the accuracy of such reason stated in the meeting minutes.

⁶⁶ The meeting was attended by Pritam Singh (Chairman of Tender and Contract Committee) and Sylvia Lim from Tender and Contract Committee; and Vincent Koh, Chen Jingwen and Philip Lim from the Contract Department.

- 5.84 In addition, the minutes of meeting of the Tender and Contract Committee also indicated that Neela had a contract with Hougang SMC before. We understand from Mr Philip Lim that the contract between Neela and Hougang SMC was for electrical work and maintenance services, which commenced on 1 June 2010, before AHTC was formed. As such, AHTC does not have the TER for the contract between Neela and Hougang SMC.
- 5.85 During our Review Period, Neela was engaged to provide services for PE amounting to \$27,545.65, and payments were subsequently made in January 2016 by AHTC, after PE was handed over to PRPTC. We understand that this has been recorded as an outstanding amount due from PRPTC during the handover of PE from AHTC to PRPTC.
- 5.86 Based on our review of these invoices, we note that the payments were made without complete supporting documents as follows:
- (a) Seven invoices amounting to \$21,421.95 did not have photographs of work completed as supporting documents; and
 - (b) Two invoices amounting to \$6,123.70 did not have WO and as such, we were unable to ascertain whether the work was completed and certified by the Property Manager. Further, for these two invoices, the Accounts Payable Journal Report was not checked by the Property Manager before processing by the Finance Department. Without certification by the Property Manager, there is a risk that payables are not recorded accurately and this may result in erroneous payments.

Notwithstanding the above, we have reviewed the payments and noted that the payments were authorised by the appropriate personnel in accordance with the Delegation of Authority. Due to lack of documentation, we are unable to determine if these amounts should be recovered from AHTC. Please refer to Appendix F for list of transactions with Neela.

- 5.87 Neela is a sole-proprietorship. We have performed related-party checks to satisfy ourselves that the owner of Neela is not any of the Town Councillors and/or AHPETC's key management personnel (namely the General Manager, Contract Manager, and Finance Manager) for the Review Period.

B. Tenders not awarded to the lowest priced bidder

Rentokil Initial Singapore Pte Ltd (“Rentokil”) – Inspection, Extermination and Eradication of Termites, Bees’ nests, Rodents and Other Pests (OT/0305/13)

- 5.88 Prior to Rentokil, the pest control services for PE were provided by Clean Solutions Pte Ltd (“Clean Solutions”), which was contracted by PRPTC. Upon the expiry of the contract with Clean Solutions on 31 March 2015, AHPETC included PE under its existing contract with Rentokil with effect from 1 April 2015. Rentokil was awarded the contract by AHPETC for the period 1 September 2013 to 31 August 2016.
- 5.89 We understand from Mr Philip Lim that PE was included under AHPETC’s existing contract instead of calling for a new tender / quotation because AHPETC would like to manage all the divisions under the same contractor / contract in order to achieve greater efficiency and economies of scale. However, this reason was not documented and/minuted for us to be able to verify the reason.
- 5.90 In any event, it did not appear to us that the Town Council adopted a consistent policy towards ensuring efficiency and economies of scale by having as many of its divisions to be serviced by the same contractor under the same contract. We note that the pest control services for Hougang SMC were provided separately by The Pestman Pte Ltd (“The Pestman”) at a rate of a 20% increment to the Schedule of Rates in respect of pest control services for the period 1 July 2013 to 30 June 2016. Even though The Pestman’s rate was even higher than Rentokil’s rate (based on a 0% increment to the Schedule of Rates), AHPETC extended the contract with The Pestman in respect of Hougang SMC for another two years upon its expiry on 30 June 2016, instead of including Hougang SMC under the existing contract with Rentokil (which provided for a lower rate). Such action directly contradicted the Town Council’s justification for including PE in the contract with Rentokil and for managing all divisions under one contract.

5.91 Based on the TER in respect of Rentokil’s contract, the tender was called by AHPETC on 12 July 2013. We note that the tender rate offered by Rentokil was not the lowest and Rentokil did not achieve the highest Price Quality Method (“PQM”)⁶⁷ score. The lowest bid was in fact offered by Pest-Pro Management Pte Ltd (“Pest-Pro”), which was also the bidder with the highest PQM score. The details of the two contractors’ rates and PQM scores are as follows:

Vendor	Tender rate \$	PQM Score %
Rentokil	0% adjustment to the Schedule of Rates	71.8
Pest-Pro	Deduction of 26% to the Schedule of Rates	90

5.92 Notwithstanding that the rate offered by Rentokil was higher than Pest-Pro and its PQM score was conversely lower than Pest-Pro as shown in the comparison above, the TER did not provide any cogent reasons for awarding the tender to Rentokil, which was not the lowest bidder. Apart from the TER, we have also not seen any other documentation which would justify and/or support the award of the tender to Rentokil. Pursuant to Rule 74(13) of the TCFR, except as provided under Rule 74(15), the Tenders and Contract Committee must accept the lowest tender meeting the tender specifications. Rule 74(15) of the TCFR provides that the Town Council or the Chairman (within the financial limit authorised by the Town Council) may for reasons to be disclosed with the acceptance, accept a tender which is not the lowest tender. However, the “circumstances and reasons for not accepting the lowest tender” must be “fully justified and shall be recorded and open to scrutiny by the auditor” (Rule 74(16) of the TCFR). In our view, neither the circumstances and reasons for not accepting the lowest tender in this case were fully justified, nor the reasons for not doing so properly recorded (in the TER and/or in any other document). The award of the tender to Rentokil was therefore not in compliance with the relevant provisions of the TCFR, as set out above.

5.93 Further, we also note that the TER was only signed-off by the Chairman of the Tender and Contract Committee and there was no written or documented evidence that all/majority of the members of the Tender and Contract Committee had approved of the award of

⁶⁷ PQM is an evaluation method used by the Town Council. It is based on two criteria, namely, Price and Non-Price criteria, of which a 70% weightage is allocated to Price and 30% weightage is allocated to Non-Price criteria. The Non-Price criteria consist of 3 components of equal weightage, namely, Financial Position, Safety and Performance.

tender and/or accepted the tender. The Town Council was unable to provide us with any evidence of approval from the other members of the Tender and Contract Committee. This would be in breach of Rules 74(13) and (14) of the TCFR which provide for a tender to be accepted by the Tender and Contract Committee (if one has been appointed by the Town Council for this purpose) and not by the Chairman only.

5.94 From 1 April 2015 to 31 August 2016, the total transactions between AHPETC and Rentokil pertaining to this contract amounted to a total value of \$10,385.42. On the assumption that this contract was awarded instead to Pest-Pro, which had submitted the lowest bid in the tender, PE could have saved \$2,700.21, on the following basis:

- (a) Amount paid to Rentokil with 0% adjustment to Schedule of Rates = \$10,385.42
- (b) Price based on Pest-Pro's tender rate (Deduction of 26% to the Schedule of Rates) =
(A) x 74% = \$7,685.21
- (c) Estimated cost saving = (a) – (b) = \$2,700.21

5.95 Finally, we note that KPMG had performed related-party checks on the shareholders and directors of Rentokil, in relation to the Town Councillors or AHPETC's key management personnel (namely the General Manager, Contract Manager, and Finance Manager) during the Review Period, and no exception was noted.

C. Contracts which were not extended to the maximum allowable period, resulting in the Town Council paying a higher price

Titan Facilities Management Pte Ltd ("Titan") – Conservancy and cleaning works for Punggol East Estate - Zone SK2 (PE 26 and OT/0338/14)

5.96 Titan was contracted by PRPTC under Contract no. PE26 to provide conservancy and cleaning works for Punggol East Estate – Zone SK2 for a period of three years from 1 April 2012 to 31 March 2015. From 1 May 2013 onwards, this contract was handed over to AHPETC.

5.97 Contract no. PE 26 provided for an option to extend the contract term by an additional 12 months after its expiration on 31 March 2015, and Titan shall be bound by the contract price, Schedule of Rates and all terms and conditions of the existing contract. However,

we note that AHPETC did not exercise this option but chose instead to call for a new tender for the provision of conservancy and cleaning works for Punggol East Estate – Zone SK2.

- 5.98 In the new tender, AHPETC received bids from three vendors, namely, Titan (the incumbent vendor), Campaign Complete Solutions Pte Ltd (“Campaign”) and Hai Leng Contract Pte Ltd. While Titan had submitted the lowest tender price and it was eventually awarded the tender (under contract no. OT/0338/14), we note that the rates put forward by Titan in this tender were in fact significantly higher than the rates it charged in contract no. PE 26 by 67%, as computed below:

Description	PE 26	OT/0338/14
Contract Period	1 April 2012 to 31 March 2015	1 April 2015 to 31 March 2018
Contract Sum (A)	\$2,070,230	\$3,150,852
Number of EDUs (B)	9,128	8,297
Rate per EDU per month (A) / (B) / 36 months	\$6.30	\$10.55
Increase in rates under the new contract = $(\\$10.55 - \\$6.30) / \\$6.30 \times 100 = 67\%$		

- 5.99 We understand from Mr Philip Lim that while AHPETC had the option not to accept any bids in the tender (or could have deferred calling the tender in the very first place), and could choose instead to exercise the option in contract no. PE 28 which would have secured Titan’s lower rate for another year, the Town Council chose not to do so, as it considered that conservancy and cleaning works were one of the critical routine estate works for the Town Council, and the new tender would secure the services and price for a longer term (i.e. three years) (as compared to the extension of the existing contract for only 12 months). We are unable to accept such justification. To begin with, such justification is not documented or recorded anywhere, and it is therefore unclear to us if the Town Council and/or Tender and Contract Committee carefully evaluated and considered this. Further, and in any event, exercising the option would have allowed the Town Council to enjoy significantly lower rates for a further year which would result in substantial cost-savings for PE (see paragraph 5.100 below), while still leaving more than sufficient time (i.e. 12 months) for the Town Council to call a tender and secure services for a longer period of three years thereafter.

- 5.100 On the assumptions that AHPETC had extended contract no. PE 26 and there were no changes to the number of EDUs, there could have been a potential significant cost savings of \$423,147 for PE for the period from 1 April 2015 (beginning of contract period) to 31 March 2016 (based on the option to extend the previous contract by 12 months) as computed below:
- (a) Number of EDUs based on the latest contract = 8,297
 - (b) Difference in Rate per EDU per month = \$10.55 - \$6.30 = \$4.25
 - (c) Number of months (from 1 April 2015 to 31 March 2016) = 12 months
 - (d) Estimated cost savings = (a) x (b) x (c) = \$423,147
- 5.101 Finally, we note that KPMG had performed related-party checks on the shareholders and directors of Titan, in relation to the Town Councillors or AHPETC's key management personnel (namely the General Manager, Contract Manager, and Finance Manager) for the Review Period, and no exception was noted.

J Keart Alliances Pte Ltd ("J Keart") – Servicing and Maintenance of Fire Protection Systems including Standby Generator Sets (PE 40 and OT/0337/14)

- 5.102 J Keart was appointed by PRPTC under contract no. PE 40 to provide servicing and maintenance of fire protection systems for PE from 1 April 2013 to 31 March 2015. From 1 May 2013 onwards, this contract was handed over to AHPETC.
- 5.103 Similar to Titan's contract above, contract no. PE 40 provided for an option to extend the contract term by an additional 12 months after its expiration on 31 March 2015, and J Keart shall be bound by the contract price, Schedule of Rates and all terms and conditions of the existing contract. However, again, we note that AHPETC did not exercise the option, but chose instead to call for a new tender for the provision of servicing and maintenance of fire protection systems.

5.104 In the new tender, AHPETC received bids from three vendors, namely, J Keart, Red-Power and FYH Integrated Pte Ltd. While J Keart had submitted the lowest tender prices and was eventually awarded the tender (under a new 3-year contract no. OT/0337/14 for the period 1 April 2015 to 31 March 2018), we note that the rates put forward by J Keart in this tender were in fact significantly higher than the rates it charged in contract no. PE 40, as computed below:

Description	OT/0377/14 From 1 April 2015 to 31 March 2018	PE 40 From 1 April 2013 to 31 March 2015	% of increase
Fire Alarm			
- Monthly maintenance	\$65 per block	\$15 per block	333%
- Annual maintenance	\$80 per block	\$20 per block	300%
Dry Riser			
- Half-yearly maintenance	Not applicable ⁶⁸	\$8 per unit	Not applicable
- Annual maintenance	\$35 to \$140 per unit	\$12 per unit	192% to 1067%
Fire Extinguishers			
- Monthly maintenance	Not applicable ⁹⁵	\$0.90 per unit	Not applicable
- Annual maintenance	\$20 to \$40 per unit	\$1.50 per unit	1233% to 2567%
Hosereel			
- Monthly maintenance	Not applicable ⁹⁵	\$0.90 per unit	Not applicable
- Annual maintenance	\$80 to \$170 per block (approximately \$5.67 to \$6.67 per unit)	\$1.50 per unit	278% to 345%
Decam			
- Monthly maintenance	\$100 per unit	\$70 per unit	43%
Generator Sets			
- Weekly maintenance	\$50 per unit	\$10 per unit	400%
- Quarterly maintenance	\$80 per unit	\$20 per unit	300%
- Half-yearly maintenance	\$160 per unit	\$50 per unit	220%
- Annual maintenance	\$350 per unit	\$80 per unit	338%

5.105 We understand from Mr Philip Lim that while AHPETC had the option not to accept any bids in the tender (or could have deferred calling the tender in the very first place), and could choose instead to exercise the option in contract no. PE 40 which would have secured J Keart's lower rate for another year, the Town Council chose not to do so, as it considered that the maintenance of fire protection system was one of the critical routine estate works for the Town Council, and the new tender would secure the services and price

⁶⁸ Based on the technical specifications set out in the new contract, OT/0337/14 did not require half-yearly maintenance of dry risers, monthly maintenance of fire extinguishers, and monthly maintenance of hosereel. As such, there is no rate available to make a comparison.

for a longer term (i.e. three years) (as compared to the extension of the existing contract for only 12 months). For similar reasons given in relation to the case of Titan set out in paragraph 5.99 above, we are unable to accept such justification. To begin with, such justification is not documented or recorded anywhere, and it is therefore unclear to us if the Town Council and/or Tender and Contract Committee carefully evaluated and considered this. Further, and in any event, exercising the option would have allowed the Town Council to enjoy significantly lower rates for a further year which would result in cost-savings for PE (see paragraph 5.106 and 5.107 below), while still leaving more than sufficient time (i.e. 12 months) for the Town Council to call a tender and secure services for a longer period of three years thereafter.

- 5.106 We computed the potential savings for PE should the contract with J Keart be extended based on the following assumptions:
- (a) Quantity for each type of services (i.e. number of blocks and units) was based on the quantities set out in contract OT/0337/14, which was the latest version; and
 - (b) There were no changes to the quantities for each type of services under PE area during the period 1 April 2015 to 31 March 2016.

5.107 Based on the above assumptions, PE could have potentially saved \$27,249.20 from 1 April 2015 to 31 March 2016 as computed below:

Description	Contract rate ⁶⁹	Quantity ⁷⁰	Number of servicing required	Total servicing amount
Based on old contract rate per PE 40:				
Fire Alarm - monthly maintenance	\$15	21 blocks	11	\$3,465
Fire Alarm – annual maintenance	\$20	21 blocks	1	\$420
Dry Riser – half-yearly maintenance	\$8	229 units	1	\$1,832
Dry Riser – Annual maintenance	\$12	229 units	1	\$2,748
Fire extinguishers - monthly maintenance	\$0.90	161 units	11	\$1,593.90
Fire extinguishers - annual maintenance	\$1.50	161 units	1	\$241.50
Hosereel – monthly maintenance	\$0.90	386 units	11	\$3,821.40
Hosereel – annual maintenance	\$1.50	386 units	1	\$579
Decam – monthly maintenance	\$70	1 unit	12	\$840
Generator sets				
- Weekly maintenance	\$10	1 unit	48	\$480
- Quarterly maintenance	\$20	1 unit	2	\$40
- Half-yearly maintenance	\$50	1 unit	1	\$50
- Annual maintenance	\$80	1 unit	1	\$80
Total amount (A)				\$16,190.80
Amount paid for the new contract (OT/0337/14) from 1 April 2015 to 31 March 2016 ⁷¹				\$43,440
Estimated cost savings (B – A)				\$27,249.20

5.108 We have performed related-party checks to satisfy ourselves that the shareholders and directors of J Keart are not the Town Councillors or AHPETC’s key management personnel (namely the General Manager, Contract Manager, and Finance Manager) for the Review Period.

Conclusion

5.109 From our review of the tender contracts and TERs, there is a general lack of documentation on the full reasons and justifications on: (a) why some of the vendors were awarded the contracts although they were the sole bidder and/or they did not submit the

⁶⁹ Contract rates were extracted from contracts PE 40.

⁷⁰ Quantities of each type of service were extracted from contract OT/0337/14.

⁷¹ Extracted from AHTC’s accounting system and checked to the relevant payment documents and supplier invoices.

lowest bid; and (b) why options in existing contracts which provided for lower rates were not exercised by the Town Council, which resulted in the Town Council engaging the same incumbent vendor in new tenders but on significantly higher rates.

5.110 In conclusion, our review showed that:

- (a) The award of PE-related contracts (by tender) by the Town Council in some instances were not in compliance with the relevant provisions of the TCFR and/or were not in the best interest of the Town Council;
- (b) There were two instances where AHTC/AHPETC only received single bids when a tender was called:
 - (i) In one instance, even though the comparison done by the Contract Department indicated that the sole bidder's rates were higher compared to the existing rates of the incumbent contractors, the Town Council still proceeded to award the contract to the sole bidder, although it could have exercised the options to extend the existing contracts with the incumbent contractors, which would have led to costs savings of \$25,920;
 - (ii) In another instance, the contract was awarded to a single bidder based solely on anecdotal experience of a recent work performed by the bidder, without further evidence of actual requisite experience. For the services performed by this vendor during the Review Period, certain payments were also made without complete supporting documents and these payments amounted to a total sum of \$27,545.65.
- (c) There was one instance where AHTC had awarded a tender to the bidder who did not quote the lowest price and did not achieve the highest PQM score. The circumstances did not justify the Town Council awarding the contract to a bidder which was not the lowest bidder, and the award of the tender therefore contravened the relevant provisions in the TCFR. Had AHPETC selected the bidder with the lowest tender price, PE could have potentially saved \$2,700.21.

- (d) There were also two further instances where AHPETC did not choose to extend the contract even though it had the option to do so and it would have been in the interest of the Town Council to do so. Had such options been exercised, AHPETC could have potentially saved \$423,147.00;
- (e) In summary, the total costs-savings that the Town Council could have saved (as well as payments made in some instances without proper supporting documents) add up to a total amount of (at least) \$506,562.06. The Town Councillors and/or Town Council officers who made the decision to enter into these contracts (and/or approve such payments) without good reasons / justifications and/or in breach⁷² of the TCFR, should bear personal responsibilities for the loss of this amount.

⁷² KPMG Report at 4.7.1 and 4.7.2.

C. Review of Payments Made for PE Direct Expenses in November 2015

Background

- 5.111 Expenses borne by PE include, *inter alia*:
- (a) Expenses directly attributable to PE; and
 - (b) PE's share of the common expenses.
- 5.112 Direct expenses made by PE include lifts maintenance, cleaning and conservancy work, refuse handling services, etc. We would clarify that even though these expenses are directly incurred by PE, the actual payments for these expenses are still made centrally from AHPETC's bank accounts⁷³ (given that PE does not have a bank account of its own) and will subsequently be re-charged back to PE as an inter-company payable to the Town Council.
- 5.113 The authorisation to procure goods and services is given via WI which should be approved by the Department Manager (before issuance of WI). The authorisation to make payments for goods and services is given via WO which should be approved by the Department Manager to certify that the works and services are duly performed. The Department Manager would rely on various supporting documents detailed below for such evidence of work done:

Types of purchases	Supporting documents
Non-estate work ⁷⁴	Delivery order
Routine estate work ⁷⁵	Monthly service report
Ad-hoc estate work ⁷⁶	Job sheet and photograph of works completed (e.g. photograph of lift spare part replaced, before and after photographs of trees trimmed)

⁷³ There are four bank accounts maintained by AHTC. Payment of operating expenses are mainly paid through the bank account maintained with United Overseas Bank.

⁷⁴ Non-estate work pertains to general expenses such as office supplies, printing for advertisements and magazines.

⁷⁵ Routine estate work refers to maintenance of mechanical and electrical services such as lifts, pumps and lighting, proper upkeep of property and the living environment, conservancy and cleaning which are fixed monthly expenses and payments agreed in contract.

⁷⁶ Ad-hoc estate work refers to one-time work required at the agreed contractual rates.

- 5.114 Upon the completion of work, the WO is reviewed and authorised by the Department Manager to certify that the goods and services have been appropriately delivered, prior to submission to the Finance Department to process payment.
- 5.115 Once the vendor's invoice is certified, the Accounts Payable Voucher Journal Report would be generated and checked by the Department Manager, as well as verified and approved by the Finance Department before it is recorded in the accounts payable sub-ledger.

Basis of Selection

- 5.116 For the purposes of this report, we have selected the direct expenses / payments made by PE for the month of November 2015 to check for improper payments. There are a number of reasons for our choice of the month of November 2015.
- 5.117 The basis for this selection is, firstly, that November would be the last month before the handover of PE from AHPETC to PRPTC on 1 December 2015. In other words, it would be the last month under which PE operated under the systems and processes of AHPETC, which had been found by AGO in the Audit to have outstanding non-compliances with s 35(c) of the TCA. November 2015 would also be just before the release of the Judgment on 27 November 2015, which ordered AHTC to appoint accountants (pursuant to which AHTC subsequently appointed KPMG).
- 5.118 Second, we have also performed a trend analysis of the direct expenses made by PE⁷⁷ over the Review Period, which revealed that in terms of value, the direct expenses made by PE in November 2015 were one of the highest, and in terms of number of transactions, November 2015 was in fact the month with the highest number.
- 5.119 Mr Kevin Lee explained to us that the hike in direct expenses for PE in November 2015 was likely to be due to the fact that AHPETC was trying to clear as many payments of outstanding invoices for PE as possible before the close of the handover accounts of PE and the handover of PE back to PRPTC.

⁷⁷ Data for expenses and payments are extracted from the general ledger of AHTC's accounting system.

- 5.120 Third, November 2015 was a month which KPMG did not focus its review of expenses / payments on. We note that for KPMG's review, KPMG had focused and covered all payment transactions in the month of January 2014 on the ground that January 2014 was prior to AGO commencing the Audit and FMSS would still be in charge of the Town Council operations (and, accordingly, AHPETC would not have been able to remediate any control issues which AGO subsequently identified in its Audit). For the rest of the months for the Review Period, KPMG had performed sampling to test the payment transactions.
- 5.121 We set out our findings on the exceptions and/or irregularities we noted in our review of the direct payments in November 2015 below. A list of exceptions and/or irregularities by vendors can also be found in Appendix G. Our work procedures covered in this section can be found in Appendix H to this report.

Exceptions and/or irregularities

A. *Supporting documents for payment missing and/or not properly maintained*

No supporting evidence of work done for services received

- 5.122 There were 22 instances where invoices were paid even though the supporting documents / evidence of work done in the form of job sheets, photograph of works completed or monthly service reports, were missing.
- 5.123 Based on our review of other paid invoices for similar works / services carried out by the same vendors, the invoices were supported by job sheets and photographs of works completed, which were attached to the WO. Please see details of these invoices totalling \$536,059.92 in Appendix I.

B. *Payment documents not approved by the appropriate authority*

- 5.124 Generally, Rule 56(1) of the TCFR provides that any officer allowing or directing any disbursement without proper authority shall be responsible for that amount. Further, Rule 56(4) of the TCFR as well as the internal work processes of the Town Council provide for certain matters to be approved by only the Head of Department or the Department Manager (and not a more junior staff). However, in our review, we found a number of

instances where the relevant payment documents were not approved by the persons authorised to do so.

WI were not approved by appropriate authority

- 5.125 We noted an instance where the WI was not authorised by the Department Manager. Based on established procedures, the WI in this instance should have been authorised by the Property Manager (i.e. the relevant Department Manager in this case) for the purchase of the stated goods and services before any order is placed with the vendor. However, in this instance, the WI was only authorised by a (more junior) Senior Property Officer. Please refer to Appendix J for the details of this invoice of \$1,151.87 paid to EM Services Pte Ltd.

WO were not approved by appropriate authority

- 5.126 We noted an instance where the WO was authorised by the Senior Property Officer instead of the Property Manager (i.e. the relevant Department Manager in this case). Please refer to Appendix K for details of this invoice of \$2,297.65 paid to Promptech (M&E) Pte Ltd.

Invoices were not certified in accordance with Rule 56 of the TCFR

- 5.127 We noted 56 instances where invoices were paid but not certified by the appropriate personnel as required under Rule 56(4)⁷⁸ of the TCFR. The invoices, which according to Rule 56(4) of the TCFR, should be signed by the Department Manager (as the Head of the Department) as a form of certification that the goods and services were correctly billed (prior to payment), were signed only by the Property Officer or Finance and Admin Executive. We note that the payment for these invoices totalled \$674,388.70. Please refer to Appendix L for the details of these invoices.

Accounts Payable Voucher Journal Reports were not checked by personnel of appropriate level of authority

- 5.128 We noted three instances where the Accounts Payable Voucher Journal Report was not checked by the Department Manager or any personnel from the requesting department before the Finance Department processed the payments. Please refer to Appendix M for details of these invoices totalling \$2,720.96.

⁷⁸ Rule 56(4) of the TCFR states that "It is the responsibility of the Head of Department to satisfy himself that the services specified have been duly performed and the goods purchased have been properly held or applied for the purpose intended".

C. Documents not approved on a timely basis

WI were not timely approved prior to job commencement

- 5.129 There were 20 paid invoices made to Mitsubishi Elevator (Singapore) Pte Ltd (“Mitsubishi Elevator”), where the WI were not prepared and approved prior to the commencement of works by Mitsubishi Elevator. These WIs were approved and issued only after the work was completed and of the relevant job sheets were received from Mitsubishi Elevator. Please refer to Appendix N for the details of these WIs totaling \$23,776.25.
- 5.130 We understand from the Town Council’s Property Officer, Kai Xian, that these WIs pertained to urgent works such as repairs for sudden lift breakdowns where there would be insufficient time to prepare the WI prior to the commencement of the work. Though the exceptions noted in our review pertained only to Mitsubishi Elevator, Kai Xian explained that such cases were common across other vendors rendering urgent repair services of lights and lifts.
- 5.131 However, Rule 55(2) of the TCFR makes clear that “urgent orders placed verbally shall be confirmed on the official order form immediately after the verbal instructions have been given.” In other words, it was opened to the Town Council in such cases of urgency to place a verbal instruction first but thereafter to prepare immediately the necessary WI. However, this was not done in the sample transactions we reviewed. The WIs were belatedly issued between 4 to 90 days. In the premises, the Town Council had breached its own established procedures and/or the TCFR.

D. Generally, a weak Control Environment

- 5.132 The Town Council did not have any formalised written policies and procedures for the procurement-to-payment process during the Review Period, and such formal written policies and procedures were only recently finalised and put in place in November 2016. In our view, the lack of such formal written policies and procedures led to a generally weak control environment in the Town Council and could have contributed to the some of the exceptions and/or irregularities that we have noted above. The problems arising from the lack of such formal written policies and procedures were further exacerbated by the high turnover of staff in AHTC. This, consequently, led to inconsistent practices across the

board by different personnel (unfamiliar with the established work processes), resulting (also) in some of the aforementioned exceptions / irregularities identified.

- 5.133 Based on our understanding of AHTC's procedures for payment, we further note that supporting documents for payments (e.g. invoices and job sheets) are not invalidated after approval of payment, so as to prevent re-submission of the same documents for duplicate payments. This would have been an important mitigating control to have in the payment process. The lack of such control inevitably increases the risk of duplicate payments.

Conclusion

- 5.134 Our review of the direct expenses / payments made for PE in November 2015 revealed that there were several control lapses in AHPETC's procurement-to-payment process, resulting in a number of exceptions and/or irregularities in breach of the TCFR and/or the Town Council's established work processes, and which led generally to a weak control environment. In our view, the payments made in breach of the TCFR and/or the Town Council's established work processes would be payments made improperly. In this regard, we would further highlight that Rule 56(1) of the TCFR provides that any officer allowing or directing any disbursement without property authority shall be responsible for that amount.
- 5.135 We also noted missing supporting documents from our review. Without the relevant supporting documents (which were missing and/or not properly retained as a matter of record), there is no assurance that the work was satisfactorily performed and/or services were received, and, accordingly, whether the payment made was proper and/or justified. Payment made without supporting documents would also be in breach of Rule 56(4) of the TCFR which makes it clear that it would be the responsibility of the Head of the Department (in this case, the Department Manager) to satisfy himself, amongst others, that the services specified had indeed been duly performed and/or the goods purchased had been properly held or applied for the purposes intended.
- 5.136 In the premises, for the above payments we identified that were in breach of Rules 56(1) and/or Rule 56(4) of the TCFR, the relevant officer and/or the Head of Department may be liable for such payments.

D. Allocation of Common Expenses to PE

Background

- 5.137 As set out in paragraph 5.111 above, expenses borne by PE include its share of the common expenses incurred by AHPETC.
- 5.138 PE's share of the common expenses is taken into account in computing the balances attributable to PE. Errors in the allocation of common expenses can result in net resource outflow for PE, and from PE's perspective, such wrongly allocated common expenses would also be an improper payment. The allocation of the common expenses to PE would also have a direct bearing on whether the balances handed over and/or to be handed over from AHTC to PRPTC (for the constituency of PE) are correct.
- 5.139 The ratio to allocate the common expenses is determined based on relative proportion of Equivalent Dwelling Units ("EDU") amongst the seven divisions under AHPETC⁷⁹. For the purpose of computing EDU, each residential property is considered as one EDU and each commercial property is considered as two EDUs. For parking lots, a grouping of six car lots, 36 motor cycle lots or four lorry lots collectively considered as one EDU.
- 5.140 Data on residential and commercial properties to determine attributable EDUs is maintained by HDB, accessible via a HDB portal called HDB Gateway. For the car park lots in each division, the information on EDUs is provided by HDB on hardcopy and is sent to the Town Council on a monthly basis.
- 5.141 Our work procedures covered in this section can be found in Appendix O to this report. We set out our findings on these exceptions and/or irregularities noted, in turn, below.

⁷⁹ AHPETC manages three constituencies, namely Hougang Single Member Constituency (SMC), Punggol East SMC and Aljunied Group Representation Constituency (GRC). Aljunied GRC covers 5 divisions, namely Bedok Reservoir-Punggol, Eunos, Kaki Bukit, Paya Lebar and Serangoon. Each SMC is considered as one division for the purpose of management.

Exceptions and/or irregularities

No Allocation of Common Expenses for the period 1 May 2013 to 31 March 2014

- 5.142 AHPETC did not allocate common expenses for the period from 1 May 2013 to 31 March 2014 to all divisions, including PE. No satisfactory reason was provided by the Town Council as to why the allocation was not carried out.
- 5.143 The Town Council also failed to maintain a complete record of the source information on the housing, commercial and parking lots units from HDB, which made it difficult to re-compute (with certainty) what ought to have been the proper allocation of the common expenses to PE during this period. Using GL codes as proxy to identify common expenses and verifying allocation basis used in the period before 1 May 2013, we re-constructed such allocation and estimate the amount of common expenses attributable to PE for the period 1 May 2013 to 31 March 2014 to be approximately \$1,313,925.42. Please refer to Appendix P for the types of common expenses that should be allocated to PE for the period 1 May 2013 to 31 March 2014.

Inaccurate Allocation for the period 1 April 2014 to 30 November 2015

- 5.144 From our re-computations and checks done on the allocation percentages used for the period 1 April 2015 to 31 March 2015, we found discrepancies between the allocation percentages computed by AHPETC and our own computations of the same allocation percentages for certain months. These discrepancies are set out in Appendix Q.
- 5.145 Such discrepancies meant that for certain months, PE was charged more for the common expenses, while for some other months, it was charged less, as illustrated by the table below:

Month	PwC's Computation	Information Provided by AHTC	Differences (\$)
	Allocation percentages from the re-run Property Master file	Allocation percentages from the Property Master file	
Apr-14	20.55%	20.56%	2.61
May-14	20.55%	20.56%	8.19
Jun-14	20.71%	20.70%	(5.64)

Month	PwC's Computation	Information Provided by AHTC	Differences (\$)
	Allocation percentages from the re-run Property Master file	Allocation percentages from the Property Master file	
Jul-14	20.78%	20.78%	0.00
Aug-14	20.78%	20.78%	0.00
Sep-14	20.78%	20.78%	0.00
Oct-14	20.56%	20.56%	0.00
Nov-14	20.31%	20.56%	132.17
Dec-14	20.34%	20.29%	(34.91)
Jan-15	20.22%	20.29%	81.37
Feb-15	20.20%	20.20%	-
Mar-15	20.18%	20.20%	97.16
Total			280.95

- 5.146 At the end of the day, as shown by the table above, the discrepancies amounted to a net cumulative difference of \$280.95, i.e. PE ended up overall paying a higher amount of \$280.95 for the period 1 April 2014 to 31 March 2015.
- 5.147 For the period 1 April 2015 to 30 November 2015, we note that a different method of allocation was used from the preceding period of 1 April 2014 to 31 March 2015. Instead of an automated allocation process via the Accounting System, the Town Council changed to a manual allocation process via manual journal entries.
- 5.148 We found further that for the common expenses in the entire month of November 2015, they were allocated to the different divisions based on the *previous* month's allocation percentages (i.e., October 2015 allocation percentages). As a result of this, PE ended up having to pay an additional cumulative amount of \$3.67. Please refer to Appendix R for the details of the common expenses in November 2015 which were wrongly allocated based on October 2015's allocation percentage.
- 5.149 In addition, the allocation of common expenses for one specific transaction in November 2015 was allocated to PE based on the allocation percentage used for June 2015 instead of the allocation percentage for November 2015. As a result, the amount allocated to PE was understated by \$227.91.

Original supporting documents for payments missing

5.150 During our payment testing, we identified five instances of common expenses where AHTC was not able to provide the original supporting documents for the payments made as follows:

Vendor Name	Invoice Number	Invoice Amount (\$)	Impact to PE (\$)
Stamford Press Pte Ltd	STF2014122910081	44,080.00	8,943.83
Hitachi Sunway Information Systems	INV-HS(S)/A1130101	26,427.50	5,338.35
Hitachi Sunway Information Systems	INV-HS(S)/A1130073	22,165.00	4,590.37
Hitachi Sunway Information Systems	INV-HS(S)/A1130063	8,782.50	1,805.68
Irawan Garden and Servicing	15910	862.00	428.49
Total		102,317	21,106.72

5.151 In the absence of supporting documents, we are unable to verify that the services had been satisfactorily performed by the vendors and if such payments were proper.

Conclusion

5.152 It is clear from our findings above that the allocation of common expenses was not performed consistently by AHPETC in the Review Period. In fact, as shown above, for an 11-month period (i.e. 1 May 2013 to 31 March 2014), no allocation at all was performed by AHPETC, and no satisfactory explanation was offered by the Town Council as to why the allocation was not carried out. The failure to perform the allocation of common expenses timely and the failure to maintain proper records of the source information (required for such allocation) meant that the Town Council (and us) now have the unenviable task of re-constructing what ought to have been the proper allocation of common expenses for the period of 1 May 2013 to 31 March 2014 (using other available and/or secondary information). This would also, in turn, very likely cause much inconvenience to PRPTC, given that the handover of PE, including the accounts and balances, have taken place, but now such handover accounts and balances may have to be relooked at, in view of the need to account for PE's share of unallocated common expenses for the period 1 May 2013 to 31 March 2014 (which we have estimated to be approximately \$1,313,925.42, including MA fees).

- 5.153 For the period where allocation of common expenses was performed (i.e. 1 April 2014 to 30 November 2015), we note that inconsistent methods of allocation were used for different periods without justification and/or any good reasons.
- 5.154 The integrity and accuracy of AHPETC's allocation of common expenses during the Review Period is also in doubt, given that, in our review, we have picked up significant discrepancies in the computation of the allocation percentages for 7 out of a total of 12 months. In fact, we also observed instances where the wrong allocation percentages were used to allocate the common expenses. In this regard, we would point out that Rule 54 of the TCFR provides generally that the Heads of Department "shall be responsible for the accuracy of accounts, vouchers and statements rendered by them or under their authority". Such accounts and statements would naturally include the proper accounts and records of allocation of common expenses as well. The failure to properly allocate the common expenses would be in breach of Rule 54 of the TCFR.
- 5.155 In our view, the above would, unfortunately have an impact on the transfer of accounts and balances from AHTC to PRPTC in relation to PE, and there may be a need for such handover accounts and balances to be re-looked at, in light of the discovered discrepancies in AHPETC's previous allocation of common expenses. From PE's perspective, the additional amounts which it had to pay because of the use of wrongly computed allocation percentages would also clearly be improper payments, which PE ought to be entitled to recover from AHTC.
- 5.156 The net cumulative difference may not be significant, but what is of significance and concern to us is the frequency (7 out of 12 instances) of such discrepancies. The frequency of the discrepancies raised serious doubts as to the accuracy of the allocation percentages used by AHPETC for the allocation of common expenses and/or whether the computation of the allocation percentages were correctly performed by the Town Council.
- 5.157 Further, AHPETC's failure to maintain a complete record of the source information on the housing, commercial and parking lots units from HDB (as we have explained in paragraph 5.143 above) also hampered us from fully determining and verifying the accuracy of the allocation percentages used by AHPETC.

5.158 Finally, as the improper payments of the Town Council (identified by both KPMG and PwC) are assessed, quantified and finalised, this may also have an impact on the allocation of common expenses. Common expenses, affected by such improper payments, may have to be recomputed, and it follows that the allocation of such common expenses may have to be relooked and recomputed based on complete information and a consistent allocation method.

E. Delay in granting PwC access to, and failure to provide PwC with, all the necessary documents and information

Delay in granting PwC access to the necessary documents and information

- 5.159 As set out above in Section 3, the scope of work that the accountants were directed to perform by the Court of Appeal in the Judgment comprised of two parts, i.e. Part I Work and Part II Work.
- 5.160 PwC completed the Part I Work with the submission of the PwC Monthly Progress Report on 15 May 2016. However, in the report, PwC highlighted that:
- (a) It has still not been given access by AHTC to the necessary documents and/or information; and
 - (b) Until the necessary documents and information and/or access to such documents and information have been given to PwC, PwC was unable to perform the review of past payments of AHPETC (i.e. the Part II Work).
- 5.161 Despite various repeated requests and reminders from PRPTC and PwC, AHTC did not grant PwC access to the necessary documents and information until 31 October 2016 (more than five months after PwC issued the PwC Monthly Progress Report), which meant that PwC could only commence effective work on the Part II Work on 1 November 2016.
- 5.162 A chronology detailing the full sequence of events in relation to PwC's document / information request is set out in Appendix S.
- 5.163 In summary, as early as 15 April 2016, after consulting with PwC, PRPTC had written to AHTC with a detailed list of documents and/or information requested by PwC, which PwC would require to perform the tasks set out in the Judgment. However, no documents and/or information were provided by AHTC. Instead, we understand that AHTC had taken the view that since it has already appointed KPMG as its accountants, it was unnecessary for PRPTC to appoint PwC to duplicate the same work. This impasse led to HDB calling a meeting with both Town Councils (i.e. AHTC and PRPTC) and their respective accountants

(i.e. KPMG and PwC) on 15 June 2016. However, although PRPTC, KPMG and PwC attended this meeting, AHTC declined to do so.

- 5.164 Subsequently, on 8 July 2016, at a further hearing before the Court of Appeal to clarify its orders in the Judgment, the issue of whether PRPTC was also bound by the orders in the Judgment (and/or had an interest in the same) arose for the court's consideration.⁸⁰ At this hearing, we understand that AHTC recognised that PRPTC (on behalf of PE) had an interest in the work that was being done by the accountants following the Court of Appeal's orders in the Judgment and no longer disputed PRPTC's entitlement to appoint its own accountants, i.e. PwC. Accordingly, at the same hearing, the Court of Appeal directed that the two accountants, i.e. KPMG and PwC "should communicate directly with one another and afford each other such access as may reasonably be required to safeguard each party's interests".⁸¹
- 5.165 Pursuant to the Court of Appeal's directions given on 8 July 2016, PwC wrote directly to KPMG on 18 July 2016 to: (a) set out a preliminary list of documents and/or information that PwC would like to have access to, as a matter of priority, to be able to perform its tasks; and (b) propose a meeting with KPMG to discuss, amongst others, access to such documents and/or information, as well as the scope of review and methodology for the review of past payments.
- 5.166 On 27 July 2016, KPMG met up with PwC to discuss PwC's document request. KPMG indicated a willingness to share the necessary documents and/or information with PwC, but this was subject to its client's, AHTC's, agreement. However, notwithstanding the Court of Appeal's directions given on 8 July 2016, AHTC, again, was not willing to provide PwC with the necessary documents and/or information. This time round, AHTC had insisted on PwC giving certain conflict undertakings to AHTC first (notwithstanding PwC's engagement was with PRPTC and that PRPTC, and not AHTC, was its client), before granting PwC access to the necessary documents and/or information. This led to another fresh impasse between PRPTC and AHTC. Correspondence were exchanged between the two Town Councils but AHTC refused to grant access to PwC, insisting on the above condition it had unilaterally imposed.

⁸⁰ Further Judgment at paragraph 2 which explains the context of the 8 July 2016 hearing.

⁸¹ AGC's letter dated 11 July 2016 to PRPTC, conveying the Court of Appeal's directions and also the Further Judgment at paragraph 3.

- 5.167 Given the impasse, PRPTC's lawyers, Drew & Napier LLC ("**D&N**"), applied to the Court of Appeal for an urgent hearing. At the convened hearing on 18 August 2016, the Court of Appeal ordered that:
- (a) AHTC shall release the PE documents (the "**Category 1 Documents**") to PRPTC / PwC *without* the imposition of any condition; and
 - (b) PRPTC / PwC be also given access to all the remaining documents (the "**Category 2 Documents**"), save that for those specific documents which AHTC has concerns, the Town Council's solicitors, with the assistance of the accountants, are to work out the conditions upon which these documents can be released to PRPTC / PwC.
- 5.168 Following the directions from the Court of Appeal on 18 August 2016, PwC wrote to KPMG on 22 August 2016 for the Category 1 Documents to be provided as soon as possible.
- 5.169 On 25 August 2016, AHTC (through KPMG) provided limited (and clearly incomplete) Category 1 Documents to PwC.
- 5.170 On 30 August 2016, PwC wrote to KPMG to point out that the Category 1 Documents provided were limited and incomplete, as well as to set out a list of documents that ought to exist in relation to the Category 1 Documents.
- 5.171 Subsequently, some further but not all the Category 1 Documents were provided on a piece-meal basis to PwC on 6, 21 and 30 September 2016. As for the Category 2 Documents, notwithstanding a meeting held on 16 September 2016 and various correspondence between the parties in relation to the release of the Category 2 Documents, no agreement was reached on the release of such documents, and none were provided to PwC.
- 5.172 The unsatisfactory state of affairs prompted PRPTC to make another application to the Court of Appeal on 8 October 2016, and a further Court of Appeal hearing had to be convened on 24 October 2016. At the hearing, after hearing parties, the Court of Appeal reserved its decision on the further appropriate orders / directions to make.

5.173 On 28 October 2016, the Court of Appeal issued a further judgment (the “Further Judgment”), which, amongst others, ordered that:

(a) AHTC was to provide PRPTC / PwC with access to:

(i) All the documents which relate exclusively to or were connected only with the affairs of PE Constituency (i.e. the Category 1 Documents) which are in its possession, custody and power; and

(ii) All other documents which relate to or were connected with the affairs of PE Constituency that are not Category 1 Documents (i.e. the Category 2 Documents) which are in its possession, custody, and power.

(b) AHTC was to provide PRPTC / PwC with access to the Category 1 Documents and Category 2 Documents forthwith, and in any event no later than 4 November 2016.

5.174 As a result of the Court of Appeal’s further orders made in the Further Judgment (including the imposition of a deadline of 4 November 2016 for compliance), AHTC finally granted PwC access (at the Town Council’s office) to the Category 1 and 2 Documents on 31 October 2016.

5.175 However, by this time, KPMG (i.e. AHTC’s accountants) had completed its work on the review of past payments (i.e. the Part II Work ordered by the Court of Appeal) and had issued its report, i.e. the KPMG Report. Accordingly, AHTC’s prolonged delay in granting PwC access to the necessary documents and information has led to the anomalous situation where AHTC’s accountants, KPMG, has completed and issued its report on the review of past payments, while PwC was only just being granted access to the necessary documents and information, which it needed to perform the review of past payments. As explained above, the fact that KPMG has already completed its review and made findings on past payments of AHPETC led to the revision in the scope of review for PwC in relation to the Part II Work, as we have elaborated in Section 3 above.

Failure to provide PwC all necessary documents and information

- 5.176 The judgment by the Court of Appeal on 28 October 2016 ordered AHTC to give PwC access, no later than 4 November 2016. Having been granted access to the documents and/or information at the AHTC's premises from 31 October 2016 onwards, we carried out the review of past payments, and, from time to time, requested further documents and/or information from AHTC (either in writing or orally through our face-to-face meetings with the Town Council's staff).
- 5.177 Post this Court of Appeal judgment, AHTC was generally more facilitative of our document and/or information requests. However, for certain requested documents, AHTC had declined to provide them to us.
- 5.178 First, AHTC took the general position that all documents which were before the Review Period (i.e. before 1 May 2013) need not be given to PwC. In AHTC's views, these would be "Category 3" documents which did not relate to PE at all. Thus, for instance, despite our repeated requests, in relation to our review of the RPTs, AHTC declined to provide us with the CPG Contract, the 1st MA and EMSU contracts with FMSS, as well as the minutes of the Town Council meetings in relation to these contracts, as these were documents before 1 May 2013.
- 5.179 Subsequently, AHTC agreed to let us have a copy of the CPG Contract, but, oddly, maintained that we could not be given a copy of the 1st MA and EMSU contracts with FMSS (although all three documents, in the Town Council's views would be "Category 3" documents).⁸² As for the minutes, AHTC eventually also agreed to let us have sight of the relevant Town Council meeting minutes before 1 May 2013, but indicated that we could not rely on such minutes for purposes of this report.
- 5.180 We are unable to agree with the position that AHTC has taken for the following key reasons:
- (a) Although our review of past payments is focused on the interest of PE's financial affairs, this did not then mean that the documents before the Review Period would be irrelevant to our review.

⁸² Letter from AHTC to PwC dated 3 February 2017. Our most recent request to AHTC on the outstanding documents was dated 27 January 2017.

- (b) To illustrate this point, we take the example of the 1st MA Contract with FMSS. As we explained in Section 5A above, the KPMG Report had found that the *circumstances* surrounding the termination of the incumbent MA, CPG, and the appointment of FMSS as MA (without tender), which *started* the relationship between the Town Council and FMSS, and, *consequently*, put in place the flawed payment approval system were questionable, and concluded that the entire process by which FMSS was appointed as MA was “*unsatisfactory overall*”.⁸³ If CPG had not been let go and/or if the tender had not been waived, it would have meant that by the time PE became part of AHPETC on 1 May 2013, the MA would most likely not have been FMSS (in fact, CPG would have remained as the incumbent MA) and that the flawed payment system, which PE then became subject to (under which improper payments have been found by KPMG to have been made to FMSS, including under the 2nd MA and EMSU contracts which clearly included PE), would not have been in place. Clearly, the set-up of FMSS and the circumstances surrounding the award of the 1st MA Contract to FMSS would also have a bearing on PE’s financial affairs, and was an area of concern which we felt warranted further investigation in our report (as we have explained in Section 5A above).
- (c) In our professional view, we would also add that a proper audit cannot be performed if artificial limits are placed on the documents the accountants can review. As we have explained above, the Review Period sets out the transactions relating to PE which we focused on for purposes of this report. However, documents before (or even after) the Review Period may impact or shed light on the transactions relating to PE during the Review Period, including the circumstances and context underlying these transactions. All relevant documents should be made available to us to enable us to understand the full circumstances and context underlying the transactions we review as it may impact or shed light on transactions relating to PE.
- (d) We also fail to appreciate and/or understand the arbitrary distinction drew by the Town Council on its treatment of the different “Category 3” documents. There is also no principled basis for the Town Council to grant us access to some of these

⁸³ KPMG Report at 5.5.20.

“Category 3” documents but not others, or to impose conditions on the use of some of these documents that they have given us but not others.

- 5.181 Second, despite repeated requests, no correspondence and/or written communications, including, importantly, emails, in relation to, amongst others, the takeover of the MA and EMSU services by FMSS (including the termination of CPG), the award of contracts to FMSS, and/or FMSS’ performance of works were given to us. We have asked for all such correspondence and/or written communications (including emails), whether within the Town Council itself or between the Town Council and external parties such as FMSS, and/or whether amongst one or more individuals (including the Town Councillors and FMSS’ personnel such as How and Loh). Such request was specifically and most recently made again in our letter dated 27 January 2017. The Town Council’s reply dated 3 February 2017 was simply that it had “provided all information relating to [our] request”.
- 5.182 We find this explanation difficult to accept. Apart from physical meetings and discussions, we understand from the Town Council that the Town Councillors communicate largely through emails amongst themselves and/or with staff, and that the Town Council also communicates with external parties regularly and commonly by way of emails. This is common for any organisation in today’s day and age. Yet, no single email on the matters stated in the preceding paragraph was given to us for our review, though, in our view, such emails ought to exist.
- 5.183 For instance, on the premature release of CPG, this must have been the subject of correspondence between CPG and the Town Council and/or email discussions amongst and/or involving the Town Councillors.
- 5.184 The same must clearly be said about the MA Contracts with FMSS. On the 1st MA Contract, the Town Council met on 4 August 2011 to decide on the waiver of tender and FMSS’ appointment as MA. Prior to this meeting, there must have been correspondence and/or email discussions amongst and/or involving the Town Councillors concerning such waiver of tender and/or award of the 1st MA Contract to FMSS. These correspondence and/or emails would have shed light on the circumstances surrounding the waiver of tender and the award of the 1st MA Contract to FMSS. Similarly for the 2nd MA Contract, which is of even more significant value, it is difficult to believe that the only time that the Town Councillors discussed the contract was the meeting of the Tender & Contract Committee

and/or at the relevant Town Council meetings. There must have also been relevant correspondence and/or email discussions amongst and/or involving the Town Councillors.

5.185 Indeed, this has been proven to be the case when we obtained the IP Documents from HDB, which included relevant correspondence (albeit at a late stage of our review when we were already finalising this Report). Such correspondence would clearly be in the possession of the Town Council and/or elected Town Councillors, but, for reasons unknown to us, were not given to us. In fact, the impression conveyed to us by the Town Council was that all relevant correspondence had been provided and/or no further exists. In addition to the correspondence given to us by HDB (as part of the IP Documents), it clearly appears that such correspondence is not complete and others must exist. It is troubling that the relevant correspondence have been withheld from us. If the full set of these documents / correspondence was provided to us at the outset, we would have been able to pursue further lines of inquiries and/or draw further conclusions on the RPTs.

5.186 In light of the improper payments and circumstances surrounding these RPTs (which are fully set out in KPMG Report), we would have thought that it would be all the more imperative for the Town Council to put forth all such correspondence and/or emails to shed greater light on these transactions as well as the intentions behind such transactions. However, none from the Town Council was forthcoming. Instead, it appears that they have, despite our repeated requests, withheld relevant correspondence to us. If the transactions with FMSS were beyond reproach, there is no reason not to be fully transparent with us on the relevant documents (in particular, correspondence) *re* the same.

5.187 In this regard, we also note that KPMG's attempt to obtain necessary and relevant emails from the Town Council has similarly met with difficulties. We understand that KPMG had requested to run its forensic technology procedures on some of the electronic devices of the staff of the Town Council, including, How, Loh and certain former FMSS' employees working at the Town Council. However, during the process, KPMG found, amongst others, that:⁸⁴

- (a) The profiles KPMG requested to image were accessed by the Town Council a few days prior to imaging;

⁸⁴ KPMG Report, at Appendix B, paragraph B.2.5.

- (b) The email archives pertaining to How were not present on the electronic device that KPMG was informed was assigned to her;
- (c) 17 documents and four email archives were deleted from the profile of Loh on 2 June 2015;
- (d) 23 documents and two email archives were deleted from the profile of JC, a former FMSS employee, on 14 July 2015; and
- (e) A profile for a former employee, RT, from FMSS' Finance Department was not present on any of the electronic devices that KPMG imaged, though the Town Council provided a DVD which KPMG was informed contained the profile of the employee.

Conclusion

- 5.188 To conclude, AHTC's inordinate delay in granting us access to the necessary documents and information clearly hampered and delayed the Part II Work which we had to perform pursuant to the Judgment. The delay in granting us access to documents / information, in turn, resulted in PRPTC / PwC having to request, on a few occasions, an extension of time from HDB for the submission of this Report.
- 5.189 The subsequent failure by AHTC to provide us with all the necessary documents and/or information in relation to the RPTs has also prevented us from drawing further conclusions on the same (in Section 5A above).