Standing in good stead:

Enhancing accountability of public financial management over 25 years

CPA
AUSTRALIA

KPMG
cutting through complexity

NUS
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Preface

The Auditor-General's Office (AGO), an independent organ of state, has a mission to "audit and report to the President and Parliament on the proper accounting and use of public resources to enhance public accountability".

The annual release of the Auditor-General's Report is therefore one of the more highly-anticipated occasions by government ministries and statutory boards. Its release is also widely-watched by the public, as it highlights areas of control lapses and weaknesses across public sector agencies.

Examples include the AGO's observations on system weaknesses, non-compliance with control procedures or legislation, and instances of excess, extravagance, or inefficiency leading to waste in the use of public funds and resources.

Singapore has built its reputation as a progressive, corruption-free and business-friendly economy. In 2015, this 50th year of nation building therefore seems like an opportune time to take stock of how the issues surrounding the accountability of Singapore's public resources have evolved.

Beyond the AGO Reports on a year-to-year basis, we believe there is strong merit in looking at the bigger picture over the last 25 years to better understand how things have changed over that period.

This study is not meant to be an indepth academic research or an exhaustive study of past AGO reports. Rather it is a broad and high level review of what was reported by the AGO and an interpretation of the trends, root causes and what they mean. The objective is to contribute discussion points for policy and key decision-making in the public sector in an impactful way. Understanding the root causes of the issues highlighted is critical to raising awareness of the AGO's focus areas in its reviews, and what this means for finance and internal audit executives in the public sector.

This will be particularly important as public sector entities strive to balance resources with managing reputational risk.

We hope you find this report useful reading.

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Executive Summary

While each issue of the annual Auditor-General's Office (AGO) Reports provided a snapshot into the governance of the public sector that year, an analysis in aggregate to identify changing trends over time had never been undertaken.

The research team therefore sought to analyse the AGO Reports dating back 25 years from 1990 to 2015. The analysis covers the key issues and sub-issues highlighted in the reports along with their root causes.

On the whole, our analysis shows that processes and systems were adequate in promoting good accountability in the use of public resources. The AGO Reports did not identify any major significant abuse of public funds and monies.

Nevertheless, more than 1,800 issues were identified over this 25-year period. Five areas were noted to have recurrently contained gaps and lapses over this research period.

1. Procurement

Singapore's public sector is governed by the Government Instruction Manual (IM) on Procurement, which is based on three principles: Transparency, Fairness and Value for Money. Yet, procurement issues were among the most common lapses or gaps identified over the period of study. At the operating levels, these were due mainly to:
- the lack of more detailed guidelines on the procurement procedures
- irregularity in evaluation and non-compliance with procedures.

2. IT systems

The public sector was one of the earliest adopters of technology, leading the country with the Civil Service Computerisation Programme in the 1980s. Yet, our study found that three quarters of the IT issues flagged were people-related. This suggests that as IT systems became more complex, the expertise and knowledge of ordinary users have not kept pace, resulting in systems being used in less-than-optimal ways or even operated incorrectly.

3. Grant administration

More than half of the cases flagged by the AGO concern lax controls over how grants may have been administered. 2015 represented no change. The administration of grants has drawn particular scrutiny over the years given that it concerns the disbursement of public money for funding purposes.

4. Payments

Another area that involves direct use of public funds is payments by government agencies. Our study observed that overpayments, poorly-timed payments and poor or lax controls were the common gaps or lapses identified by the AGO.

5. Revenue

Revenue forms part of the cash flow that aids the government agencies to run their daily operations. Our study noted that the recurring issues relate to two of the following areas: tendering for revenue contracts and revenue collection. In particular, government entities are required to abide by the following when considering a revenue contract: principles of transparency, open and fair competition, and proper approvals for awarding of contracts.

Root Causes

A closer analysis of the thematic issues suggests that the root causes of lapses or weaknesses were mostly in the monitoring of compliance. Supervisors at various levels did not prioritise compliance with controls. At the operating levels, insufficient or weak standards and procedures often existed.

In sum, the causes boil down to People, Process and Systems. These may also be the areas where the greatest benefits will come from improvements as a way forward to enhance accountability.

This report shares some best practices for consideration to further enhance the checks and balances to reduce incidents of gaps and lapses in public sector entities.

Glossary

Terms used in this report:

"People"
refers to knowledge capability and skill set contribution at every level of an organisation.

"Processes"
refers to the workflow, a series of interrelated or interacting tasks and activities undertaken to achieve organisational needs.

"Monitoring"
is an ongoing evaluation by management to determine if internal controls are properly implemented and effective, and where deficiencies identified and rectified.

"Lapses"
refers to non-compliances with existing policies and procedures.

"Gaps"
refers to missing controls and weakness in control design.

"Systems"
refers to tools and technology deployed to achieve process objectives.

"Supervision"
refers to the supervision and review of work.

Five issues to the fore:

**Procurement, IT systems, grant administration, payments and revenue**

In recent years, the annual Auditor-General's (AGO) reports of Singapore public sector entities have taken on a close following. Many areas of control lapses and weaknesses across public sector agencies have been highlighted in the much-anticipated reports.

Understanding the root causes of the issues emphasised is critical to raising awareness of the AGO focus areas in the reviews and what they mean for finance and internal audit executives. This is particularly important as public sector entities strive to balance resources with managing reputational risk.

In our analysis of the AGO Reports released from 1990 to 2015, we identified more than 1,800 issues over this 25-year period. While each AGO Report has flagged a range of gaps and lapses, albeit in varying degrees of seriousness, some key areas have occurred almost consistently through the period of study. These are: procurement, grant administration, IT systems. payments and revenue (Figure 1).

Figure 1: Breakdown of Issues (Total)

Legend: Revenue, Procurement, IT Systems, Grant, Payments, Others
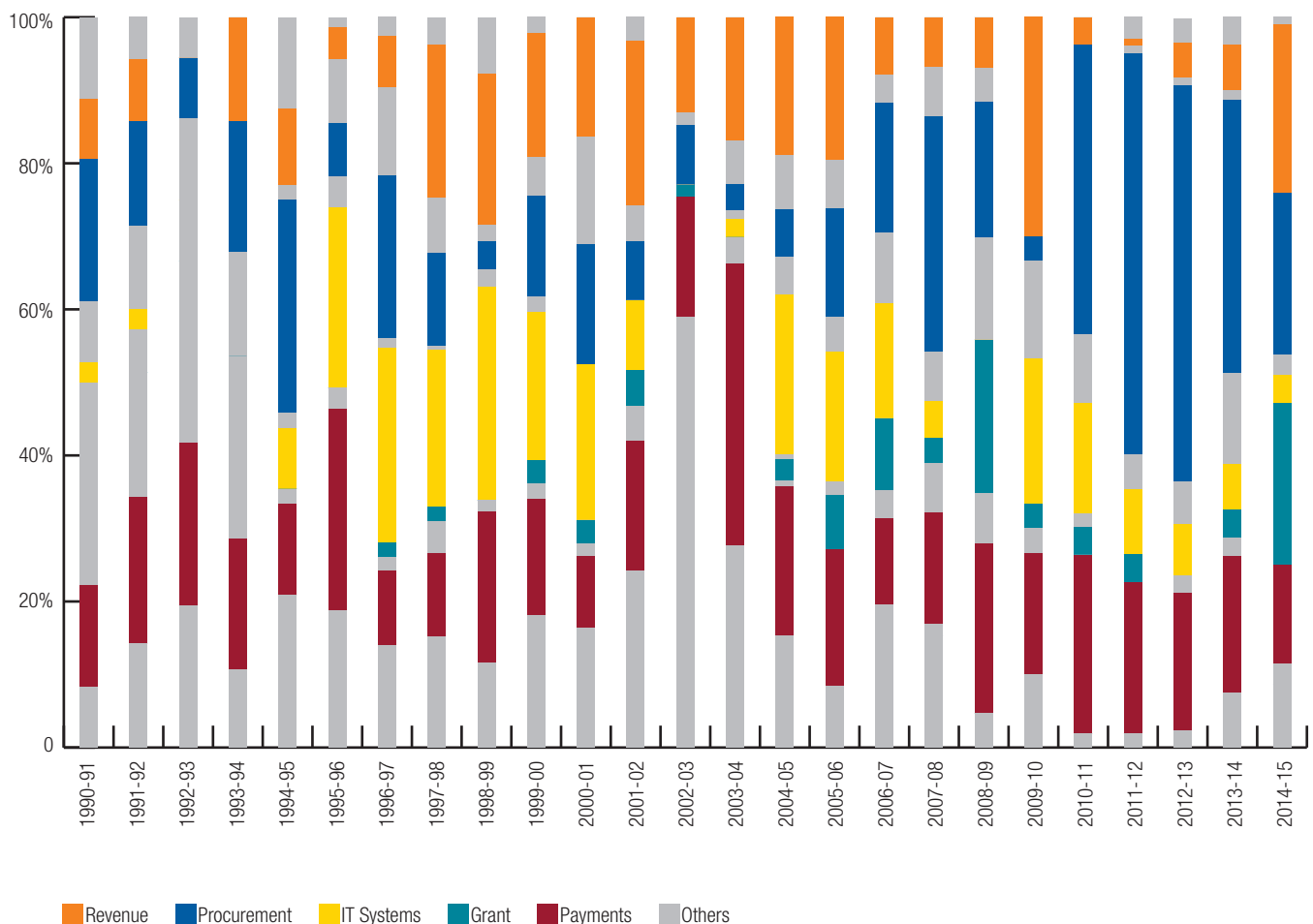
There could have been many reasons why these five areas have recurred. Overall, our study shows that the top three causes of lapses or weaknesses were mostly in the monitoring of compliance, various supervisory levels not prioritising compliance with controls, and insufficient or weak procedures (Figure 2).

There were very few issues relating to a deliberate over-riding of rules, tone from the top and fraud. Our analysis suggests that the root causes boil down to people-related issues and lax controls.

Figure 2: Top 3 root causes

Poor monitoring
Indicate that whilst monitoring procedures are in place, such lapses occur due to the standard of monitoring performed by the staff.

Compliance with controls not prioritised at various supervisory levels
Procedures/controls are in place, however, lapses occur due to oversight during each layer of control.

Insufficient/weak procedures
Procedures are present, however, it is not align with IM, hence not sufficient to address the risk.
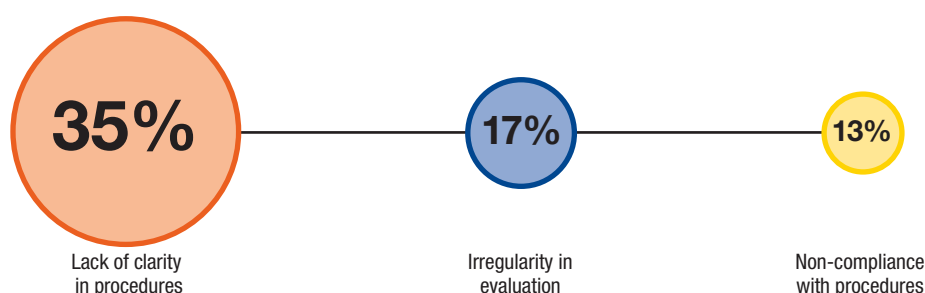
1. Procurement

The Ministry of Finance's Instruction Manual (IM) on Procurement advocates three principles in the procurement process: Transparency, Fairness and Value for Money. While these principles may provide the overarching philosophies and guidelines to guide public sector entities, each entity would need to operationalise the guidelines to more detailed instructions. Given the diversity and scale of goods and services that are required by government agencies, evaluation standards may differ accordingly depending on the needs of the entity as well as the nature of the goods and services required.

Procurement issues featured strongly. Of the instances

flagged by the AGO, 35% was due to the lack of clarity on the procurement procedures at the operating levels. This is followed by irregularity in evaluation (17%) and non-compliance with procedures (13%) (Figure 3).

Further analysis suggests that in 63% of the cases, compliance with controls was not a priority at supervisory level in the procurement process (Figure 4). While in the majority of cases, there is probably no ill-intent in non-compliance, the analysis suggests that control procedures are often overlooked or made less of a priority, especially in time-sensitive situations.

Figure 3: Breakdown of procurement issues into sub-issues

35%
Lack of clarity in procedures

17%
Irregularity in evaluation

13%
Non-compliance with procedures

Figure 4: Breakdown of procurement issues into causes

63%
Compliance with controls not prioritised at supervisory level

6%
Poor monitoring

5%
Insufficient/ weak procedures
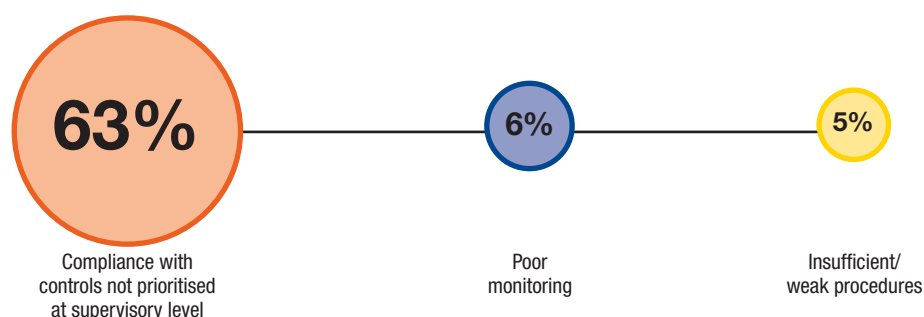
Example: Non-compliance with procedures
In a review of a tender called by one of the agencies, AGO noted the following non-compliance:
- Vendor commenced work 9 months before a limited tender was called.
- The bid was accepted despite it being incomplete. Tender approving authority was also not informed of the incomplete bid submitted.
- An assessment of the price quoted by the vendor in the tender evaluation report to the tender approving authority was not

included by the agency. Only a breakdown of the quoted price was provided.

The agency further informed AGO that the vendor was a partner with it and other agencies and that, on hindsight, there should have been a clear demarcation of work done by the vendor as a partner and as a service provider. The agency also acknowledged that it was an oversight that the tender approving authority was misinformed and that there should have been documentation of the price assessment performed.
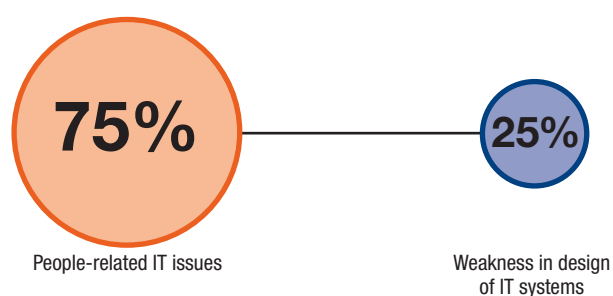
2. IT Systems

For IT systems, it was found that limitations in technology were not as much of an issue as the people who were involved. Three quarters of the issues flagged were people-related (Figure 5). In addition, IT systems, coupled with users not having sufficient technical expertise to fully understand them, could also potentially have led to inefficient use of the IT system.

Public sector officers generally receive much guidance through Instruction Manuals that document standard procedures and instructions. However, the study observed that more than half
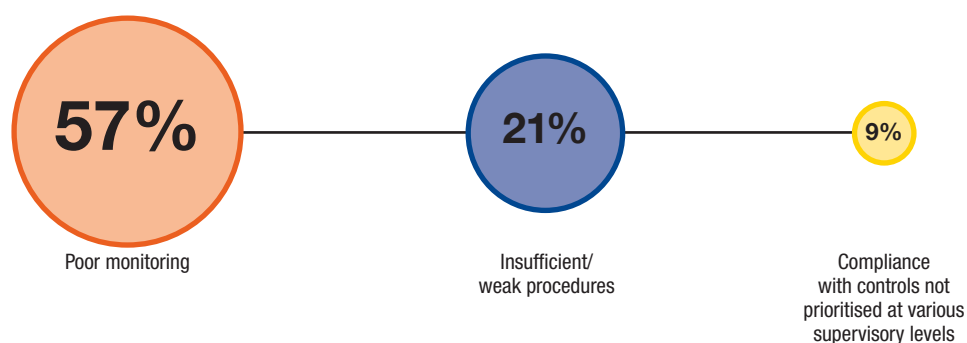
(57%) of cases involving IT issues were due to poor monitoring. Some 21% of cases were due to insufficient or weak standards (Figure 6).

These findings suggest that causes of these gaps or lapses could have been people-related and due to the scale of IT systems adopted in the public sector. Individuals may therefore require more job-specific training. More communication about IT governance may also be necessary.

Figure 5: Breakdown of IT issues into sub-issues

75%

People-related IT issues

25%

Weakness in design of IT systems

Figure 6: Breakdown of IT issues into causes

57%

Poor monitoring

21%

Insufficient/ weak procedures

9%

Compliance with controls not prioritised at various supervisory levels

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Examples: IT Systems lapses

- **Not removing accounts of users who were no longer performing functions which required access to the IT systems**
  30 user accounts were not removed even though the users had left service or had been redeployed to other positions (which did not require them to access the computer system) between 4 months and 5.5 years ago. AGO found indications that 16 of these accounts were subsequently used to gain unauthorised access to the accounting system. This was evident from the dates of the last login which came after the officers had left service or had been redeployed.

- **Not tracking and reviewing activities of users with powerful access rights**
  According to the government Instruction Manual, information on activities performed by system administrators is to be logged and reviewed for possible security breaches. However, AGO noted that for a considerable period of time, activities performed by system administrators in two of the servers were not logged.
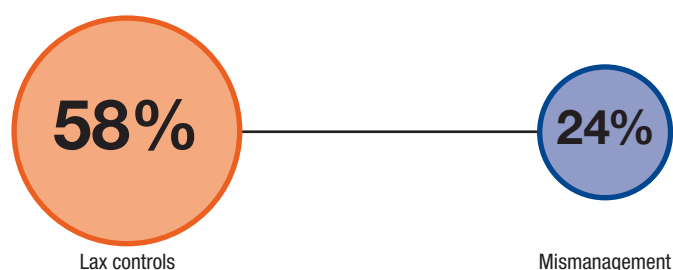
3. Grants

In the area of grants, lax controls were found to have caused more than half (58%) of lapses based on the data gathered. About a quarter (24%) of cases was due to mismanagement (Figure 7).

In almost half of the cases (45%), poor monitoring procedures was found to be a major contributor to poor governance. This is followed by insufficient or weak procedures (25%) and compliance with controls not prioritised at various supervisory levels (18%) (Figure 8).

Poor monitoring could have resulted from monitoring activities that had not been regularly performed on a suitably-timed basis, or not up to standards. There may also have been insufficient oversight or poor understanding of grant criteria.

Figure 7: Breakdown of grants-related issues into sub-issues

58%
Lax controls

24%
Mismanagement

Figure 8: Breakdown of grants-related issues into causes

45%
Poor Monitoring

25%
Insufficient/
weak procedures

18%
Compliance
with controls not
prioritised at various
supervisory levels
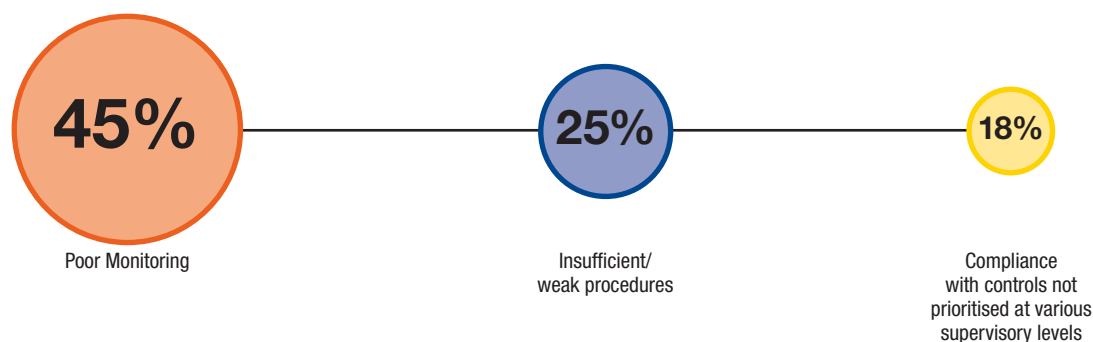
Example: Poor monitoring
One of the statutory boards set up an Incubation Fund under the Social Enterprise Hub Programme. The Incubation Fund, administered by a company limited by guarantee, was tasked with investing in social enterprises in the form of equity or loan. AGO observed the following:
• Investment Guidelines were too broad to be effective in guiding the company in its evaluation of investment proposals.

• Investment Guidelines did not set the criteria for determining the type of investments (equity or loan) to be made and the terms and conditions for loans.
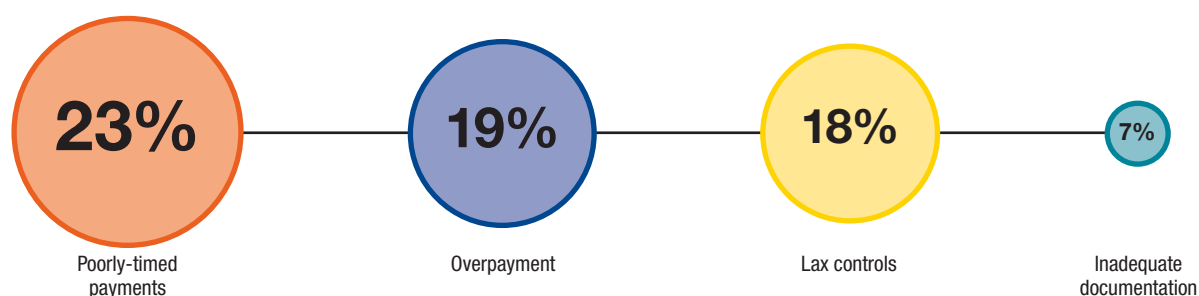
AGO also noted from its test checks of three investment proposals totaling $690,000 that the company had not documented the basis of its recommendations on (i) the type of investments and (ii) the terms and conditions in cases where loans were provided.
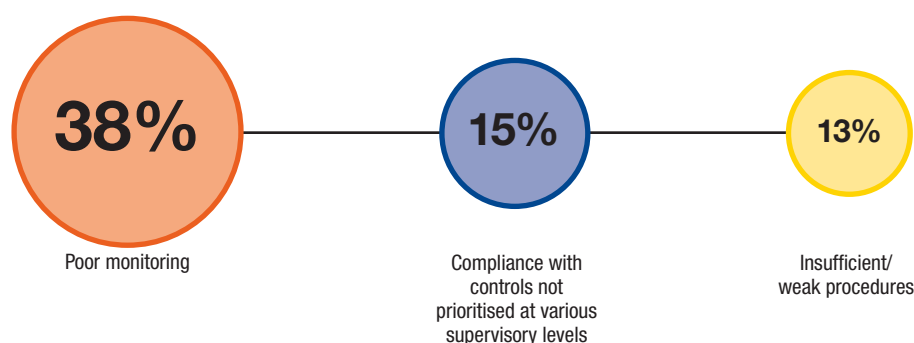
4. Payments

For Payments, poor or lax controls have been found to have existed in 18% of the cases. In addition, overpayments (19%) and poorly-timed payments (23%) were also identified as issues (Figure 9). Nearly four-in-10 cases (38%) flagged by the AGO were due to poor monitoring (Figure 10).

Figure 9: Breakdown of payments-related issues into sub-issues

23%	**19%**	**18%**	7%
Poorly-timed payments	Overpayment	Lax controls	Inadequate documentation

Figure 10: Breakdown of payments-related issues into causes

38%	**15%**	**13%**
Poor monitoring	Compliance with controls not prioritised at various supervisory levels	Insufficient/ weak procedures

Example: Payments Lapses
- **Overpayment**
  AGO's audit on contract management of an agency showed an over valuation of $254,100 for variation works. This was due to the following:
  – Value of anti-homogenous floor tiles was 3.8 times higher than the market rates obtained by AGO, resulting in over-valuation of $128,000. Other lapses include variation of works not based on actual dimensions and quantities installed on site and arithmetical errors

  – Item was included in the variation works but it was not installed on site, resulting in an overpayment of $14,200.

- **Early Payments**
  An agency approved two payments amounting to $217,000 for the maintenance of two IT systems before services were fully rendered.
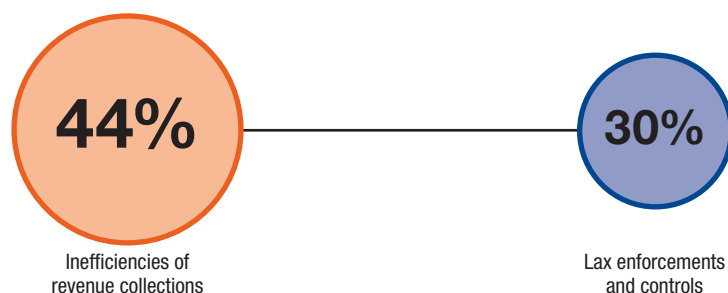
5. Revenue

Frequently, government entities award vendors with contracts to operate businesses on their premises. Other than ensuring that revenue is maximised and obtaining the right approvals for the award of contracts, public entities are also to abide by the principles of transparency, and open and fair competition.

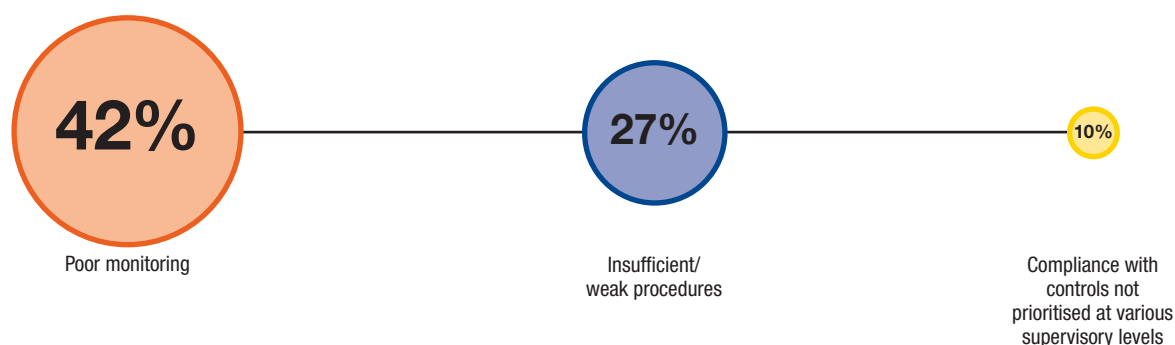Based on the data, we noted that recurring revenue issues is made up of lax enforcements and controls (30%) and inefficiencies of revenue collections (44%).

Poor monitoring (42%) remains the biggest cause of the occurrence of revenue issues. This could be a result of complicated procedures in the tendering process or difficulties in matching operational efficiency while following the controls set in place.

Figure 11: Breakdown of revenue-related issues into sub-issues

44%

Inefficiencies of
revenue collections

30%

Lax enforcements
and controls

Figure 12: Breakdown of revenue-related issues into causes

42%

Poor monitoring

27%

Insufficient/
weak procedures

10%

Compliance with
controls not
prioritised at various
supervisory levels

Example of Revenue Lapses:
- Lax controls/enforcements in revenue tenders
  – Revenue Tender was called. However, this tender was not performed as per the principles.
  – Operator awarded was not deemed eligible to tender for the quantum stipulated.
  – Published evaluation criterion for the evaluation of tender was not used.
  – Inadequate monitoring and enforcement of operator's compliance to the performance stated in the contract.

- Under-collections
  – Land was sublet to a private contractor at below fair market value, contrary to Government policy
  – The license agreement between the Ministry and the contractor was established almost a decade back. Since then, many factors have changed.
  – Contractor who was initially wholly owned by Government was privatised
  – Contractor was initially contracted to provide services to the Ministry but has since used the land for commercial activities which is beyond the initial sole purpose of providing services to the Ministry
  – Land used for commercial activities should be charged at market rate

The bottom line

It boils down to People, Processes and Systems

The top three causes of lapses or weaknesses were mostly in the monitoring of compliance, various supervisory levels not prioritising compliance with controls, and insufficient or weak procedures. Our analysis suggests that the root causes boil down to people-related issues.

Going ahead, it is suggested that improvements could be focused on three areas: People, Processes and Systems. However, the biggest challenge is still People.

People

By and large, the integrity and competency of people was not observed to be an issue. However, the analysis suggests that People represented the weakest link in the operational or value chain. Constant and ongoing communication and engagement with staff may be helpful in encouraging them to be aware and mindful of the potential for unnecessary risk exposure.

With procurement issues a recurring theme over the years, there is a need to develop a heightened risk and control consciousness among staff, coupled with elevating consequence management, such as tying the audit results to individuals' performance, accountability and control awareness.

The government Instruction Manuals for the different processes are already in place to ensure that standards are not compromised and that there is a high degree of public accountability. However, a set of strict, robust and firm guidelines would have to be supported by the process owners. With adequate control awareness, process owners will be able to better comply with the controls put in place, thus reducing the instances where lapses could occur. At the same time, continuing training and building awareness of the right procedures and attitudes towards risk management may need to be fostered.

Our study found that three quarters (75%) of IT-related issues are people-related. Gaps in knowledge or training may have contributed to development, administration and use of systems not being at optimal levels. This suggests a need for regular on-the-job training to obtain the necessary competencies.

Processes

The research found a low percentage of control environment and risk assessment issues over the years. However, in instances where processes have failed, the AGO Reports have noted a lack of clarity on required processes.

In some areas, it was deemed that there were insufficient or inadequate standards or procedures on occasions. This was especially prevalent in the areas of revenue, IT systems and payments (Figure 13).

Also noteworthy is that even when there were procedures in place, such lapses occurred due to the standard of monitoring performed. For grant approval, enforcement may need to be stricter and controls and checks and balances may have to be tightened.
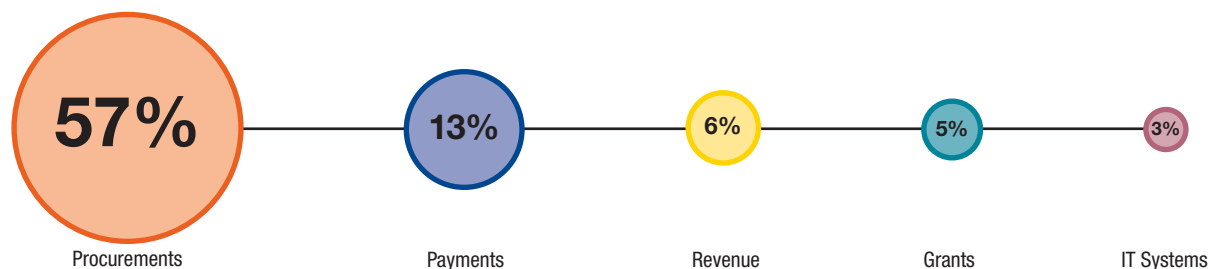
The findings suggest that compliance with controls was not seen as a priority by supervisors. In procurement, this problem occurred in nearly six-in-10 (57%) cases (Figure 14).

An opportunity may therefore exist for a public service-wide exercise aimed at reducing complexity in guidance and regulations. The objective is to enhance compliance with stricter adherence to the principles underlying governance in the custody of public finances.

Figure 13: Breakdown of root causes (Insufficient/weak procedures) into issues

20%	16%	10%	8%	6%
Payments	Revenue	IT Systems	Procurements	Grants
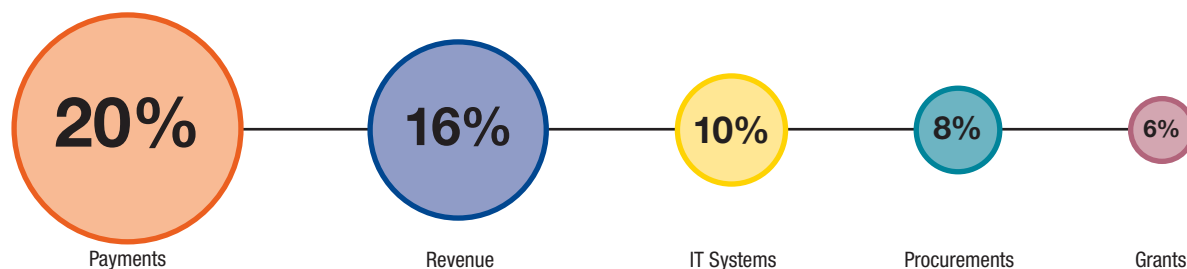
Figure 14: Breakdown of root causes (Compliance with controls) into issues

| 57%	13%	6%	5%	3%
Procurements	Payments	Revenue	Grants	IT Systems

There are very few instances of deliberate over-riding of rules. However, poor monitoring was observed as another reason for failures, especially in the areas of of payments (23%), revenue (16%) and IT systems (14%) (Figure 15).

Systems

Systems refer to the adoption of technology to facilitate the achievement of process objectives, as well as to support audit such as through the use of data analytics tools to detect irregularities.

As noted earlier, our analysis has found that three quarters of IT-related issues are due to people. This suggests that the benefits of technology adoption have not been maximised and the use of relevant tools should be enhanced to reduce the instances of simple human errors. There is also potential for data and analytics tools to assist especially in detecting irregularities.

Figure 15: Breakdown of root causes (Poor monitoring) into issues

| 23%	16%	14%	4%	3%
Payments	Revenue	IT Systems	Grants	Procurements
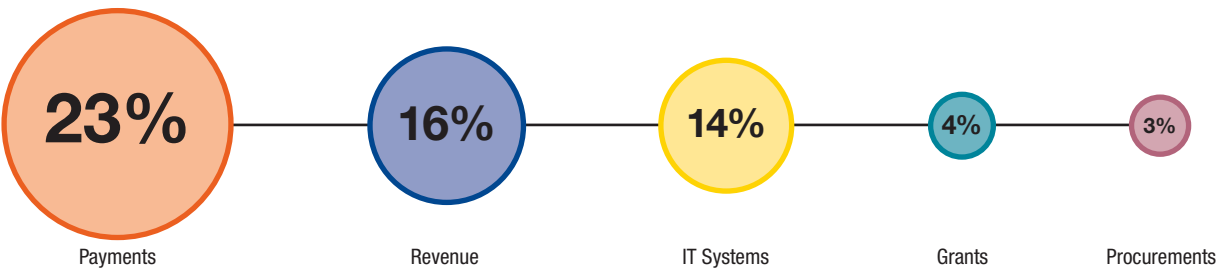
The way forward

A multi-pronged approach

Simply having the appropriate internal control processes can go a long way to helping government agencies manage their risks while complying with regulations.

Our analysis suggests that adopting a governance and internal control framework comprising four lines of defence can be beneficial and effective.

Complementing this, appropriate consequence management policies must be introduced at all levels. Such policies are also an essential part of the performance management, since individuals are made accountable for their actions.

Central to an effective internal control framework are the three crucial attributes of People, Process and System.

Figure 16: KPMG's 4 lines of defence
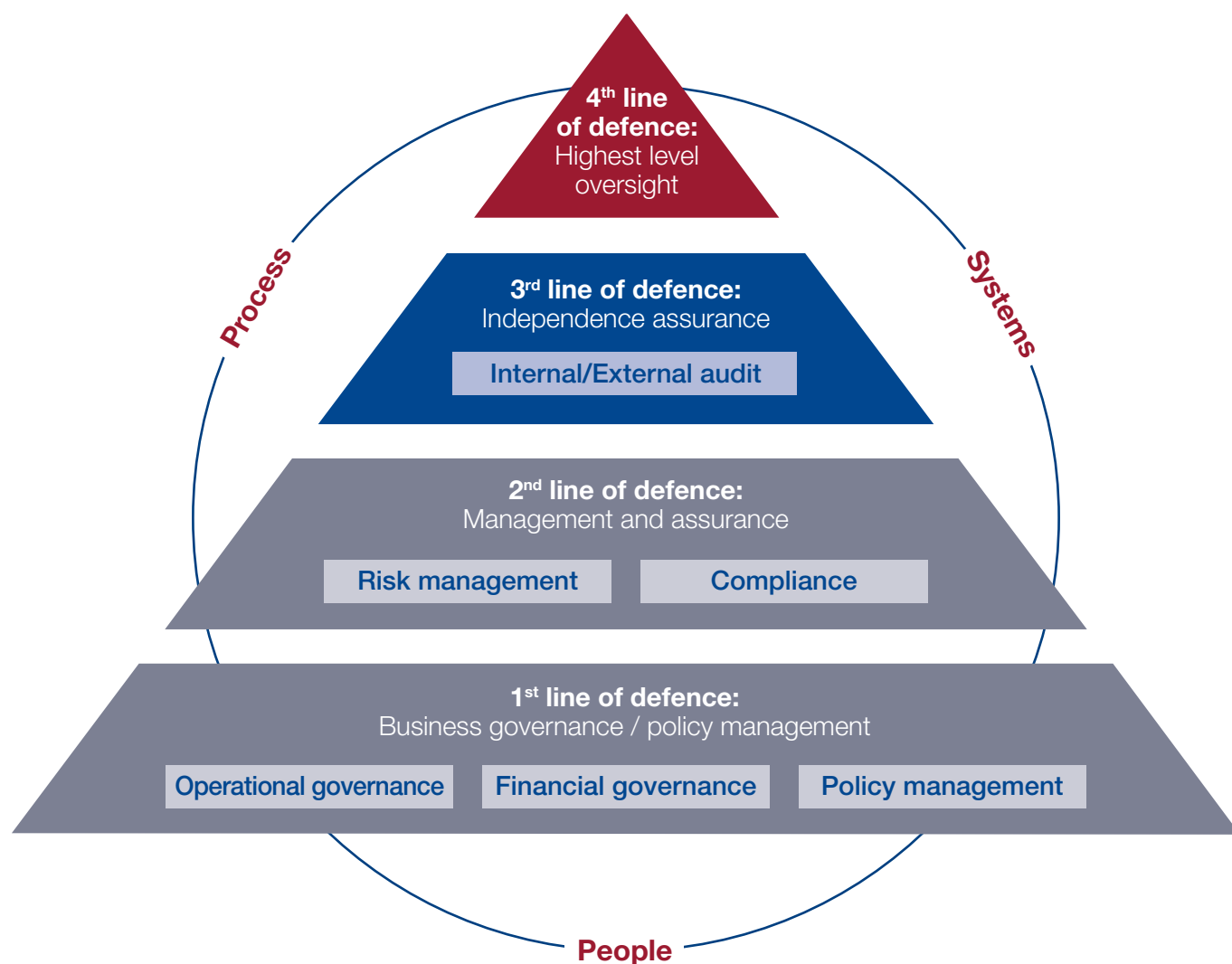
1st line of defence

Good governance extends throughout any given entity. While Government Instruction Manuals guide and influence internal procedures and processes in government agencies, it is still necessary to regularly "take a step back" to understand the spirit of a policy.

Even with the most robust policies, it is not possible to prescribe for every situation and variation thereof. It is therefore important that staff at all levels cultivate the right attitude towards managing risks complemented by the right ethical values and grounded by integrity.

Providing the appropriate risk awareness training to the relevant personnel is one solution.

Inadequate or insufficient procedures are a major cause of lapses, as observed in the area of grants, IT systems and payments. The introduction of more checklists may therefore benefit more staff at the operating levels, since even with adequate procedures, awareness of the appropriate protocols may be lacking.

2nd line of defence

The introduction of more risks awareness training and processes for managing risks may be helpful in reducing occurrences of dishonest behaviour so often threatening to damage the reputation of the public sector.

A positive attitude towards risk management therefore needs to be fostered. Understanding and managing risk is also the responsibility of all individuals in an organisation. Adequate training can make staff more aware of the risk indicators and emerging trends leading to heightened risk.

Self-assessment tests can be useful in helping individual employees understand the risk profile of their role, function or department in the pursuit of areas for improvement. A control self-assessment tool may also be introduced to further reduce or eliminate the risk of error.

The finance function of any government organisation should also be tapped to play a greater role in the custody function of public finances. Our study showed that lax controls accounted for 18% of payments-related issues suggesting that finance can play a bigger role in reiterating and enforcing compliance procedures.

Recent advances in data analytics methodologies can also help government finance functions identify anomalous behaviours for closer scrutiny. Suspicious transactions can be flagged for investigation relative to its own population rather than against a set of rules that a fraudster has learnt how to evade.

With the analysis of AGO reports showing that about 75% of IT systems were people-related issues, it may be pertinent to ensure that users of IT systems have sufficient technical expertise. This suggests that processes need to be updated and people need to be trained, regularly to better reflect the state of activities in the entity.

3rd line of defence

A third line of defence involves expanding the role that Internal Audit plays in a government organisation beyond assurance activities to risk management, governance, IT and fraud.

Traditionally, the Internal Audit function has been primarily focused on compliance and operational areas. Past surveys and studies have indicated that this role should be expanded to cover Risk Management processes, information technology and data management.

Operating independently, the Internal Audit function can provide additional assurance to the adequacy and effectiveness of the controls and compliance to government regulations. The assistance of external consultants should be considered if this can help to improve efficiency levels and streamline processes while improving the risk management framework.

The greater use of data analytics in the internal audit analysis can also help monitor processes and systems better. Constant monitoring also allows for more timely changes when the need arises.

4th line of defence

Since government agencies are ultimately accountable for the use of public resources, having more rather than insufficient information can help to ensure that systems of risk management and internal control are adequate and effective.

In the private sector, audit committees (ACs) often form the 4th line of defence, with their risk oversight responsibilities. They provide an independent assessment of whether the internal control governance framework is robust by reviewing the adequacy of the internal control systems and monitoring its effectiveness.

Statutory boards already have these ACs even if not required under existing regulations. It is also commendable to note that some Permanent Secretaries have formed oversight committees and some also chair these.

Ministries without these high level oversight committees may consider forming one to enhance their oversight capabilities.

It is important that the values of transparency, integrity and honesty are upheld while achieving the respective objectives set for public sector projects. To reinforce these ethical values in the public sector, we suggest it may be necessary to oversee the interplay of the attributes of People, Process and System to ensure the proper functioning of the four lines of defence.

About the report

All information in relation to the AGO Reports is based on publications from the Auditor-General's Office from 1990 to 2015.

With sponsorship from CPA Australia, data was gathered by NUS researchers between December 2014 and July 2015 and KPMG further analysed this against a governance framework.

Using root-cause analysis, we considered the nature of known breaches and root causes for governance issues over the course of 25 years. The issues were further broken down into sub-issues. Observations were gathered by researchers from the NUS Business School and KPMG.

It is important to note that this research is purely an interpretation of the issues recorded in AGO Reports.

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