

## ACCOUNTABILITY AND DISCLOSURE

# Improving the governance of town councils



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The Ministry of National Development has just released its fourth half-yearly Town Council Management Report covering the 15 town councils for the period between April and September 2012. The report is an important tool to hold town councils accountable.

In the past, the report covered the four areas of cleanliness, maintenance, lift performance and management of service and conservancy charges arrears. This latest report included the several enhancements, the key one being the addition of corporate governance as a new indicator.

The evaluation of the corporate governance of town councils is based on their compliance with regulatory requirements of the Town Councils Act (TCA) and Town Council Financial Rules (TCFR), and this is done through auditor's observations and a self-declared governance checklist.

The evaluation of governance is important for ensuring that the town councils have not only performed well in key areas, but that they have complied with the rules and followed proper policies and procedures in doing so. This is important for building the trust of stakeholders.

Last year, we did a study on the regulatory framework and governance practices of town councils. Based on this study, we suggest a number of further areas of improvement.

## REGULATORY ENHANCEMENTS

The Ministry sets the broad legislative framework and financial guidelines for town councils under the TCA and TCFR. Town council financial statements are expected to comply with financial reporting standards and are audited annually by a private sector auditor appointed by the Minister on the advice of the Auditor-General. The Housing and Development Board advises and assists MND in its regulatory duties.

Town councils are not subject to any code of governance, unlike many other types of for-profit and not-for-profit organisations, including listed companies, cooperatives and charities. As town councils manage a significant amount of public funds, we believe that there is a need to enhance the current regulatory framework.

This may include the adoption of a code of governance for town councils. A possible source of governance principles and guidelines for this is the Code of Governance for Charities and Institutions of Public Character. After all, town councils are public institutions not operated for profit, and can be considered as equivalent to an



The evaluation of governance is important for ensuring that town councils have not only performed well in key areas such as cleanliness, but that they have followed proper policies and procedures. TODAY FILE PHOTO

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**“Town councils should disclose information about the background of council and committee members, including the companies they work for. This is common practice for listed companies and not-for-profit organisations.**

Institution of a Public Character. This can further strengthen the current regulatory framework based around the TCA and TCFR.

The Government may also wish to consider requiring town councils to have an internal audit and to subject town councils to periodic (such as once every three to five years) performance and compliance audits — similar to what is typically done for other public sector organisations. This would further enhance governance and transparency.

## INDIVIDUALS IN DUAL ROLES

An important issue pertinent to the governance of any organisation is potential conflict of interest, especially with regard to procurement. In the case of town councils, it includes the procuring of the services of the managing agent and other services relating to estate management and maintenance.

Under the typical organisational structure of a town council, the secretary/general manager is a member of the council. Town council members (holding the position of general manager) are sometimes also senior management of the managing agent of the town council.

These dual roles create the risk of the town council member being able to influence the appointment of the managing agent and the assessment of its performance — or at least create the perception of an unfair advantage to the incumbent managing agent when it comes to reappointment.

We found that although most town councils disclosed, in their annual report or website or both, the names of

their members and the committees they serve on, some did not. They also generally did not disclose the affiliations of the members. Estate management companies who act as managing agents for town councils also did not always disclose the identity of their executive officers to the public.

Unless there is sufficient disclosure, it is difficult for residents or the public to know if the managing agent is represented on the council. It is also difficult to know if companies affiliated with council or committee members participate in tenders called by the town council.

For better transparency, town councils should disclose information about the background of council and committee members, including the companies they work for. It is common practice for listed companies and not-for-profit organisations to make such disclosures.

## BIDDING FOR MULTIPLE PROJECTS

Then there is the issue of managing agents participating in other tenders. Under the TCFR, tenders are required for contracts exceeding S\$10,000. The managing agent prepares the tender specifications which are then approved by a Tender Committee. The TCFR states that a managing agent can participate in the tender as long as it declares its interest before the tender notice ends, and does not participate in the opening and evaluation of the tenders.

However, while these safeguards are useful, a potential conflict of interest will remain because he may gain advantageous information on ten-

ders or is able to influence the preparation of the tender specifications. If the managing agent is tendering on a project, the question arises as to who is then responsible for preparing the tender specifications.

We found that some managing agents did tender for other projects within the town council although, to be fair, the managing agent was only occasionally awarded the tender.

Ideally, managing agents (and their related parties) should abstain from participating in tenders for other projects. However, this may drive up the cost of estate management. Yet the downside with managing agents taking part in other tenders is conflict of interest and an unlevel playing field — which could also drive up cost.

If managing agents are allowed to tender for multiple projects, there must be robust checks and balances in place. Transactions involving managing agents should be treated like related party transactions for companies and charities, and subject to strict scrutiny by both the tender and audit committees.

Any shareholding or significant business relationship between managing agents and those who tender for projects should also be disclosed.

## DISCLOSING TENDER RESULTS

Based on a sample period between March and September last year, we found that some of the town councils did not disclose tender results (those which did disclosed it on their websites). To be fair, most of those which did not do so had provided links to the managing agent's website which gave the results.

Nevertheless, we believe that there should be more transparency. We suggest that all town councils reveal all tender results on their website. If a project is awarded to the managing agent or to an entity related to the managing agent, this should be clearly indicated.

Another of our findings was that EM Services Pte Ltd was the managing agent for the largest number of town councils. EM Services is 25 per cent owned by Keppel Land and 75 per cent owned by the HDB. The fact that EM Services is majority-owned by HDB may create perceptions of EM Services having an unfair competitive advantage in bidding for work. It may also lead to questions regarding the oversight of EM Services.

It may be prudent for HDB to divest its stake in EM Services. From a broader policy standpoint, we should ask whether estate management companies need to be government-owned at all. It may be better from a governance standpoint, and in terms of promoting the development of SMEs, to encourage wholly privately-owned businesses to provide such services.