

**Publication: Agence France Presse**

**Date: 13 February 2015**

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Published: February 13, 2015 06:30 PM

Singapore's main opposition party was on the defensive Friday after an audit revealed apparent lapses in financial management, in a blow following major gains against the ruling party in recent elections.

The Workers' Party (WP) is under heavy fire from the ruling People's Action Party (PAP) following a report by state auditors this week that found shortcomings in the management of public funds in three WP-controlled districts.

The Auditor General's Office said three WP supporters -- including a couple who held key positions in a local town council -- were handed lucrative contracts to provide municipal services through their company FMSS.

They also had a hand in approving payments from the council to their own firm, the audit showed.

Law Minister K. Shanmugam accused the WP of handing FMSS contracts worth millions of dollars despite the conflict of interest.

"The rhetoric from the Workers' Party is always about helping the poor man," Shanmugam told parliament late Thursday as he led the PAP's attack.

"The reality is that the Workers' Party took money from the man in the street to give to their friends in FMSS."

Shanmugam said payments were made "without transparency or accountability" and some acts were "unlawful", causing the council to lose money.

The WP denied any public money was lost as a result of its actions, and leader Low Thia Kiang accused the ruling party of politicising the way municipalities are managed.

The small but aggressive WP stunned the long-ruling PAP when it seized the working-class Aljunied area in 2011 elections, automatically giving it five seats in parliament under a block-voting system.

The PAP's share of the vote fell to 60 percent in the election, its lowest since coming to power in 1959.

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Riding on the crest of hot-button issues such as the high living costs and the influx of foreign workers, the WP went on to win two seats in by-elections, giving it a total of seven seats in the 87-member parliament, with the PAP holding the remainder.

But political analyst Eugene Tan said the WP was now suffering "reputational damage" over the financial mismanagement allegations.

"The lapses are of serious concern," said Tan, an associate law professor at Singapore Management University.

He added it was too early to say how it will affect the WP's fortunes in the next general election, which is not due until early 2017 but is widely expected to be held by next year.

"It very much depends on how they go about getting their house in order," Tan said.

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