Booklet 5 of 5

Accounting and Finance Handbooks for Charities

Cost-effective Audit for Charities

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About the Handbook

This handbook consists of a series of five booklets, each covering key accounting practices relevant to the charity sector. It deals, specifically, with the following: budgeting and cash flow management, fund accounting, full cost recovery, reserves and investments, and cost-effective audit for charities.

It is hoped that Board members, management, and staff of charities, especially those without financial training, will find this handbook easy to read and a useful reference to enhance their financial operations. This in turn will lead to greater transparency and accountability of charities to the public.

The content is developed with the charities and for the charities. Each booklet is written by professional accountants who are experts in their fields. To provide practical insights, the content incorporates applied examples as well as interviews with local charities.

The editors have sought to preserve the content contributed by the authors and interviewees as far as possible. The content has been reviewed by practitioners in the industry.

Table of Contents

List of Figures

List of Tables

Foreword

Centre for Social Development Asia (CSDA)

Dr S. Vasoo

Chairman
Centre for Social Development Asia
Department of Social Work
Faculty of Arts and Social Sciences
National University of Singapore

Corporate governance and public accountability of charities are critical as mismanagement can have serious ramifications to their viability. The Centre for Social Development Asia (CSDA) is indeed appreciative of the support by Chartered Institute of Management Accountants (CIMA) for the publication of the 'Accounting and Finance Handbooks for Charities'.

As part of good governance, charities need to adopt sound accounting and finance practices to remain viable in the long term. This handbook serves as a manual that guides the Board and Management of the charities, to widen their knowledge on how to implement and monitor financial practices in their organisations.

Board members can refer to this handbook to better understand the diverse facets of financial management, and use the templates provided within to better implement accounting practices. Charities can also use this handbook as a training manual for their staff. It is envisioned that the Accounting and Finance Handbook for Charities will be helpful to all involved in understanding and implementing accounting and finance practices for charities. It will be encouraging to see further attempts by various Boards and Managements to improve the corporate governance arena of charities.

Lastly, we are grateful to the authors, academic staff, peer-reviewers, charities, and interns who worked tirelessly to make this valuable publication possible.

About CSDA

The Centre for Social Development Asia (CSDA) was launched in July 2007 by then Minister for Finance Mr Tharman Shanmugaratnam. It is under the purview of the Department of Social Work, Faculty of Arts and Social Sciences, National University of Singapore. The Centre was established in collaboration with the Centre for Social Development, George Warren Brown School of Social Work, Washington University in St Louis. The primary mission of CSDA is applied research and knowledge building to inform policies and programmes in social development, with a focus on Asia.

For more information about CSDA, please visit:
http://www.fas.nus.edu.sg/swk/partners_and_donors/research_partner/overview

For more information on the Department of Social Work, please visit:
http://www.fas.nus.edu.sg/swk/

Foreword

Chartered Institute of Management Accountants (CIMA)

Dr Noel Tagoe
FCMA, CGMA
Executive Vice President, Academics
Chartered Institute of Management Accountants

Philanthropic activities are proving to be more challenging as technology becomes the key driver behind the drastic changes on economic and social landscapes. It would be fair to say that furthering the cause to create a sustainable business model for charities has gradually become more pertinent, especially in this time and age.

Good governance is difficult to come by. To deliver service effectively to their beneficiaries, it is crucial to support charities with strong governance, coupled with robust structures, processes and good behaviour. Ensuring that good management accounting practices are in place, coupled with the ability to analyse and formulate the programmes, will help create stakeholder value. Transparency and accountability accompanied with good disclosure practices in financial management will give confidence to donors that the funds that they have contributed are doing good for society.

CIMA Centre of Excellence would like to take this opportunity to commend CSDA for its philanthropic approach to help charities do good better. We applaud CSDA for this timely publication to build a stronger charity sector in Singapore, and we commend their great efforts in the successful release of this book on charity governance.

About CIMA

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of management accountants, with over 232,000 members and students operating in 177 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualifications, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially-trained business leaders.

Together with the American Institute of CPAs (AICPA) CIMA has established the Chartered Global Management Accountant (CGMA) designation. CGMA is the global quality standard that further elevates the profession of management accounting.

The AICPA and CIMA also make up the Association of International Certified Professional Accountants (the Association), which represents public and management accounting globally, advocating on behalf the public interest and advancing the quality, competency and employability of CPAs, CGMAs and other accounting and finance professionals worldwide.

Foreword

Charity Council

Dr Gerard Ee
FCA (Singapore)
Chairman
Charity Council

Charities must be good stewards of the donations they are entrusted with and ensure that resources are used for the purpose intended. Hence, having sound financial management practices is essential to the sustainability and success of the charity. This handbook is written in an easy to understand manner, to aid charities in their implementation of financial practices.

I encourage charities to fully utilise this handbook and would like to thank the authors and charities which have contributed their invaluable time and expertise to this book. I look forward to seeing the sector being equipped with more governance knowledge and relevant skill sets.

About Charity Council

The Charity Council aims to promote and encourage the adoption of good governance standards and best practices, to help enhance public confidence and promote self-regulation in the charity sector. It also helps to build governance capabilities of charities to enable them to comply with regulatory requirements and be more accountable.

The Council comprises of 15 members, including the Chairman. 10 members are from the people sector, chosen for their expertise in accountancy, corporate governance, entrepreneurship and law. They are also involved in volunteer and charity work in varied fields such as arts and heritage, community, education, health and social services.

Foreword

The Commissioner of Charities

Adjunct Professor Ang Hak Seng
Commissioner of Charities

Charities perform a multitude of good works and play a vital role in society. Not only do they serve people and communities in need, charities also spur a caring and giving culture in Singapore.

With all the good done, it is important for charities to be accountable to their stakeholders, so as to build and sustain public trust and confidence. It is crucial for charities to embrace and apply good governance practices to ensure that charitable assets and monies are well protected, managed, and accounted for.

I commend the authors and charities who have shown their collective commitment in sharing knowledge and insights to steer and support charity accounting and reporting – it is indeed a collaborative effort towards our vision of a well-governed and thriving charity sector with strong public support.

About The Commissioner of Charities

The Commissioner of Charities oversees the charities and Institutions of a Public Character (IPCs) in the charity sector, with the assistance of five Sector Administrators from the Ministry of Social and Family Development, Ministry of Education, Ministry of Health, People's Association and Sport Singapore. Its vision is to develop a well-governed and thriving charity sector with strong public support.

The objectives of the Commissioner as stated in the Charities Act are:

- To maintain public trust and confidence in charities;
- To promote compliance by governing board members and key officers with their legal obligations in exercising control and management of the administration of their charities;
- To promote the effective use of charitable resources; and
- To enhance the accountability of charities to donors, beneficiaries and the general public.

Foreword

CFA Society Singapore

Ms Tan Lay Hoon
President
CFA Society Singapore

In a 2015 survey conducted by the Charity Council, charities have indicated that one of the top priorities where they need help is in financial management. Hence, it gives us immense pleasure to be part of this handbook project.

We hope that this handbook serves as a reference to Board members and staff of charities and while the booklet may serve as a guide, it will not be easy for charities to get started without any professional help.

CFA Society Singapore is a member society of CFA Institute, a global association of investment professionals with a mission to lead the investment profession by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society. It is our privilege if our members are able to contribute and give back for the benefit of society.

About CFA Society Singapore

Established in September 1987, CFA Society Singapore (formerly known as the Singapore Society of Financial Analysts-SSFA) is a professional society that brings together practitioners in the investment and fund management industry in Singapore. Its principal objective is to promote and uphold professional standards and ethical practice in financial analysis and investment management in Singapore. CFA Society Singapore is the 7th largest Member Society of CFA Institute, with more than 3,600 members.

The Society runs a whole host of programmes for members, CFA candidates and also the investment community, including Professional Development talks and seminars, Networking sessions, CFA information sessions and examination review classes, and Career Development talks.

Foreword

RSM

Mr Kaka Singh
FCA, FCCA, FCIS, FCMA, FCPA, CA (Singapore)
Chairman and Senior Partner
RSM

The Accounting and Finance Handbook for Charities is a commendable initiative by CSDA as it examines and compiles multiple facets of accounting and finance practices. In simple language, it provides examples of good practices and demonstrates where collective action by charities, regulators and auditors is beneficial to all and will prove vital to the continued, successful delivery of services by charities.

This handbook also guides Board members and management in effective financial monitoring of their operations and in receiving timely, relevant and accurate information frequently enough to understand when things are on track or whether emerging concerns need to be addressed.

I am pleased that our Not-for-Profit Organisation (NPO) Practice Head, Woo E-Sah, was given the opportunity to contribute to this handbook. I also encourage all charities to tap into this informative resource to enhance their financial operations.

About RSM

RSM is the sixth largest audit, tax and consulting network globally. In Singapore, the firm is the largest outside the Big 4, serving internationally active businesses.

It focuses on growing businesses, helping them to improve profits, enhance business value and internationalise.

RSM provides audit, tax, corporate and risk advisory, as well as business support services.

Its dedicated NPO Practice Team works with numerous clients—including large societies and companies limited by guarantee—across diverse sectors, offering them the added advantages of:

- Expertise in the Singapore Financial Reporting Standards, the Charities Accounting Standard, and the Code of Governance for Charities and IPCs;
- High partner, director and manager involvement;
- End-to-end services and capabilities; and
- Expertise in compliance with legislation governing charities and IPCs.

Foreword

Baker Tilly

Mr Sim Guan Seng
FCA (Singapore), CIA
Managing Partner
Baker Tilly

Good financial reporting and sound financial management are key pillars of charity governance. As stewards of donors, not only do charities have to ensure that a proper account is given of how donations received are used in order to maintain public trust, they also have to ensure that funds received are utilised in the most effective and efficient manner.

Keeping in mind that accounting and financial management practices in the charity sector may differ from those in the business world, I am greatly heartened by the timely introduction of this Accounting and Finance Handbook for Charities. This handbook, with its many best practices and recommendations, will be a good resource for Board members and management of charities.

I commend CSDA for initiating the publishing of this handbook. I am pleased that my partner, Susan Foong, was able to play a part by contributing to the writing of the fund accounting booklet in the handbook. The fund accounting booklet closes the knowledge gap in accounting practices of charities in Singapore.

About Baker Tilly

Baker Tilly's origins can be traced back to 1985 when Teo, Foong + Wong was founded. Transitional, historical name changes and mergers with various firms have brought Baker Tilly to where it is today. The firm joined the Baker Tilly International network in 2005. This long history gives Baker Tilly a rich heritage and defines the firm's present.

Since 1985, the firm has specialised in serving charities and not-for-profit organisations. Baker Tilly's extensive experience and understanding of the charity sector enables the firm to provide quality service to support its clients in their pursuit to do good works. Partners and teams in the firm have in-depth knowledge of the regulations and developments in the charity sector. More importantly, because of the firm's long history of serving charities, teams in the firm also understand the ethos and values of charity clients.

Baker Tilly services include assurance, tax, deal advisory, governance and risk, restructuring and recovery, outsourcing, and corporate secretarial. Baker Tilly is an independent member of Baker Tilly International, one of the world's 10 largest accounting and business advisory network. With this network, clients have access to global leaders in every area of business expertise.

The firm posts regular articles of interest to charities in The Salient Point, Baker Tilly's newsletter. To read these articles or to learn more about the firm's services, visit **www.bakertilly.sg**.

Cost-effective Audit for Charities

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Author's Acknowledgement
Cost-effective Audit for Charities

This booklet would not have been possible without the help, input, and support of many people.

My gratitude goes to Dr Isabel Sim, Senior Research Fellow from the Department of Social Work at NUS, who gave me the opportunity to author this booklet. I thank her as well as Professor Teo Chee Khiang and Associate Professor Alfred Loh from NUS Business School for their useful critiques and guidance in the overall development of this booklet.

I am grateful to my mentor Kaka Singh, Chairman & Senior Partner of RSM. Thank you Kaka for taking the time to read the draft versions and guide me through the journey.

I am also grateful to Tan Bee Heong of The Straits Times School Pocket Money Fund, Tay Kuan Ming and Andrea Wong of Singapore Cancer Society, and Dr Arthur Chern and Irina Tay of Singapore Anglican Community Services for reviewing the booklet's drafts and providing their invaluable comments from a reader's viewpoint.

Last but not least, special thanks to my colleagues Dennis Siew and Lai Keng Ling for their considerable time and efforts in researching the topic, content contributions and attending various meetings with me. I am indeed fortunate to have such a dedicated team.

ABOUT THE AUTHOR

Woo E-Sah heads RSM's NPO and healthcare practices. She handles audits, IPOs, and due diligence assignments for emerging businesses, multinationals, statutory boards, and public-listed companies. She also speaks on trends and challenges encountered by NPOs at seminars. E-Sah previously served as a member of ISCA's Financial Statements Reporting Committee and is currently the Treasurer of Dover Park Hospice and an Audit Committee member of Metta Welfare Association.

CHAPTER 1
Introduction

Charities may not regard an external audit as vital to their operations, or may view it as another compliance cost competing with limited resources. However, the benefits of a good external audit, which include greater stakeholder confidence in the charity's governance, may outweigh the costs. Furthermore, a cost-effective external audit can help charities to avoid unnecessary audit costs, with funds saved channelled to more productive uses that directly support its beneficiaries.

This booklet aims to help charities understand the cost composition of an external audit and the measures that they can adopt to improve cost-effectiveness in the process. A case study with illustrative examples (in **Appendices A to E**) and box stories on two local charities–Handicaps Welfare Association and TOUCH Community Services–are featured to this end. The terms 'audit' and 'external audit' are used interchangeably in this booklet, unless stated otherwise.

To facilitate understanding of the concepts discussed, a glossary is provided in **Appendix F** to clarify terminologies and/or jargon used in this booklet.

CHAPTER 2

Why the Need for Audit?

The underlying rationale for an audit is to enhance the accountability of a charity. In particular, we need an audit to express an opinion on two aspects of a charity's financial statements: (i) that the financial statements are fairly presented, and (ii) that they are in accordance with generally accepted accounting principles (GAAP). As with all compliance functions, carrying out an audit requires resources and expenses will be incurred. The expenses involved depend on the complexity of the audit.

2.1 Audit as a Statutory Requirement

A charity is commonly constituted in one of these ways:

- As a society, under the Societies Act, Chapter 311;
- As a company limited by guarantee (CLG), under the Companies Act, Chapter 50; or
- By trust deed, under the Trustees Act, Chapter 337.

The audit requirement depends on the Act applicable to the charity. In particular, all charities constituted as CLGs have to be audited based on the requirements specified under the Companies Act.

Charities constituted as societies need to be audited if their gross income or expenditure exceeds $500,000 in a financial year under the Societies Act.

For charities constituted as a trust, there are no audit requirements unless required by the trust deed.

In addition to other legal requirements, charities or Institutions of a Public Character (IPCs) have to abide by the audit requirement under the Charities Act. Regardless of their legal form, entities that are awarded the IPC status have to be audited by an independent auditor under the Charities Act.

To provide greater flexibility, the audit thresholds for the charities that are not IPCs or CLGs have been revised upwards, as shown in Table 1 below:

Table 1: External Audit Requirements

Charities' gross income or total expenditure	External audit requirements according to charity size
$250,000 or less	The accounts can be examined by an independent person whom the governing board members believe to have the relevant ability and practical experience.
Exceeding $250,000 and less than or equal to $500,000	The accounts can be examined by an independent person who is a member of the Institute of Singapore Chartered Accountants, or who possesses the necessary qualifications to be a member of the Institute of Singapore Chartered Accountants or a public accountant.
Above $500,000	The accounts of the charity must be audited by a public accountant.

Note: The external audit requirements were obtained from the Charities (Accounts and Annual Report) Regulations 2011.

The public accountant must conduct a full-scope audit. There should not be a limitation on the scope of the auditor's work in the terms of a proposed audit engagement. This is to ensure that the auditor is not prevented from disclaiming an opinion on the financial statements as a result of such a limitation.

2.2 Audit as a Safeguard to Help Minimise Risk

Charities are exposed to the same risks of financial loss as any other organisation. If these risks are not addressed, they may lead to eventual loss where the cost of recovery may prove to be higher than the initial resources expended to prevent them.

An audit is beneficial when it creates value by assisting charities to identify and mitigate the risk of loss. This is done by examining selected internal controls relevant to the charities' financial statements, reporting processes, and environment.

2.3 Accountability to Stakeholders

Charities are morally obliged to ensure the accountability of their funds and accounts. External audits enhance charities' answerability to their stakeholders by issuing an independent review of the charities' management of their financials. Such oversight and transparency subsequently promote confidence among stakeholders and secure their continual support for the charities (Sim, Loh, & Teo, 2017).

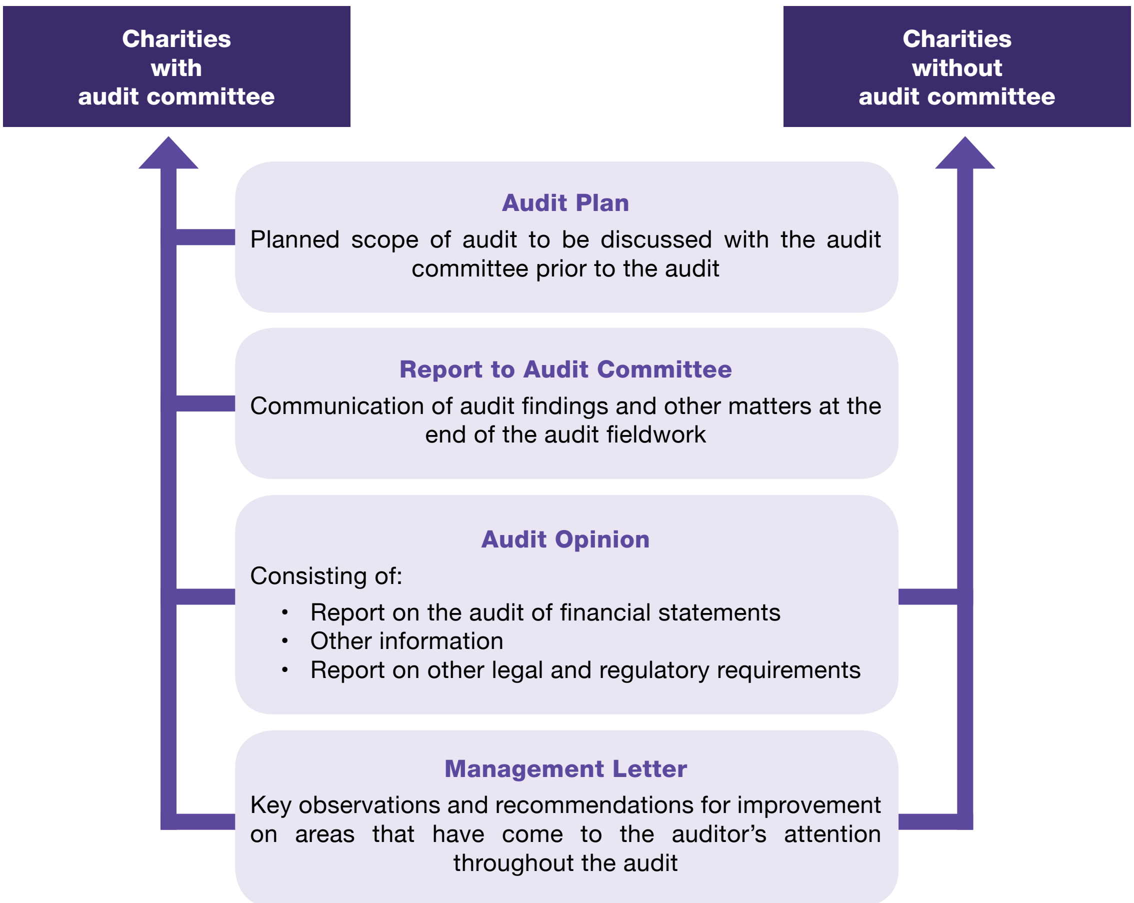
CHAPTER 3

What are Audit Deliverables?

In accordance with the Singapore Standards on Auditing (SSAs), an audit is conducted on the premise that the charity's management and those charged with governance (TCWG) acknowledge certain responsibilities fundamental to the conduct of the audit. As the basis for the auditor's opinion, SSAs require the auditor to obtain reasonable assurance that the financial statements as a whole are free from material misstatements, whether due to fraud or error.

The auditor is expected to submit deliverables to the charity at various stages of the audit. These deliverables will differ depending on whether the charity has an audit committee or not. Where a charity has an audit committee, the auditor will be required to submit four deliverables. These are the audit plan, report to audit committee, audit opinion and management letter. *Figure 1* summarises these deliverables, which are further elaborated in Sections 3.1 to 3.4.

Figure 1: Summary of Audit Deliverables



3.1 Audit Plan

Prior to the commencement of an audit, the auditor will meet the audit committee and present the audit plan through a formal meeting. At a minimum, the audit plan should cover the audit approach and focus areas, as well as the audit and non-audit services provided to the charity. It should also highlight issues, if any, concerning the auditor's independence in undertaking the audit.

The audit committee should assess the appropriateness of the audit plan and highlight any additional areas that the audit should cover. It should also review the fees and expenses payable to the auditor. Finally, the audit committee should satisfy itself that the non-audit services provided would not affect the auditor's independence.

In the absence of an audit committee, the auditor should have a kick-off meeting with the management of the charity prior to the audit's commencement, communicating in essence what would have been covered during a meeting with the audit committee.

3.2 Report to Audit Committee

Before issuing the audit opinion, the auditor will report to the audit committee on the audit findings, summary of unadjusted differences, and the auditor's independence in undertaking the audit.

The audit committee should satisfy itself that the audit has addressed key areas as communicated in the audit plan and consider the appropriateness of the auditor's independence in providing the audit and non-audit services.

3.3 Audit Opinion

An audit opinion consists of the report on the audit of the financial statements, other information, and the report on compliance with other legislative requirements[1].

Firstly, the report on the audit of the financial statements consists of financial statements properly drawn up in accordance with the relevant statutes and accounting standards in Singapore.

The relevant statutes include:

- Societies Act, Chapter 311;
- Companies Act, Chapter 50;
- Trustees Act, Chapter 337; and
- Charities Act, Chapter 37 and other relevant regulations (the Charities Act and Regulations).

The relevant accounting standards are:

- Singapore Financial Reporting Standards (SFRS); and
- Charities Accounting Standard (CAS).

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[1] Please refer to https://isca.org.sg/media/780113/ags-1-jan-2017.pdf, especially appendices 1(H) and 1(I), for more information.

Secondly, other information in the audit opinion refers to other financial or non-financial information (excluding financial statements) in the annual report. Common items include the chairman's statement, operating and financial review, corporate governance statement, financial summaries, employment data, financial ratios, and selected data.

In connection to the audit of the financial statements, it is the auditor's responsibility to read up on other information. In doing so, the auditor should consider whether this information is materially consistent with the financial statements or knowledge obtained in the audit, or appears to be materially misstated. The auditor is required to report any material misstatement presented in other information.

Thirdly, a report on compliance with other legislative requirements[2] should be included in the audit opinion. The compliance report states whether the charity's accounting and other records have been done in compliance with the provisions of the applicable Societies Act or Companies Act and Charities Act, along with its corresponding regulations.

- **For societies with or without IPC status**, proper accounts and other records kept of the fundraising appeal are required by Regulation 6 of the Societies Regulations.
- **Charities without IPC status, but with fundraising activities**, should comply with the requirements for fundraising expenses under Regulation 7 of the Charities (Fund-raising Appeals for Local and Foreign Charitable Purposes) Regulations 2012.
- **For charities with IPC status**, the utilisation of donation proceeds should be in accordance with their objectives as required under Regulation 11 of the Charities (Institutions of a Public Character) Regulations. They also have to comply with the requirements for fundraising expenses under Regulation 15 of the Charities (Institutions of a Public Character) Regulations.

Please refer to **Appendices B and C** for examples of the independent auditor's reports.

3.4 Management Letter

The management letter is a formal communication from the auditor to the management on key observations and recommendations for improvement in areas such as accounting, controls or governance. However, these recommendations should not be construed as provisions of assurance on internal controls.

Unfortunately, many charities are not receptive to these recommendations. Instead, they view auditors as adversaries and their recommendations as the auditor's disagreement with how accounting issues are handled within the charities.

This should not be the case. Charities should regard auditors as a resource to tap on to improve management's effectiveness.

[2] This is from an audit perspective with guidance from the Audit Guidance Statement (AGS) issued by the Institute of Singapore Chartered Accountants. There are other regulations that Charities need to adhere to.

CHAPTER 4
What Affects the Cost of an Audit?

The process of engaging an auditor is the same as any other procurement process. Factors that need to be considered in the procurement selection process include: organisational needs, cost of good or service, the service provider, and the value it brings.

Cost considerations are especially pertinent for charities. Given their limited resources, charities should aim to minimise wastage on unnecessary costs by ensuring a cost-effective audit. The funds saved can be redirected to functions that directly support the charity's purpose. Hence, it is vital for charities to understand what goes into the cost of providing an audit and work with audit firms that fit their needs.

The following factors affect the cost of an audit:

i. Pricing policy, experience, and skill sets of audit firms;
ii. Choice of financial year end;
iii. Time spent on the audit;
iv. Charity's culture for a cost-effective audit (see Chapter 5);
v. Quality of charity's internal controls and documentation of procedures and systems (see Chapter 6); and
vi. How the charity prepares for the audit (see Chapter 7).

4.1 Pricing Policy, Experience and Skill Sets of Audit Firms

It is common for charities to select auditors based on the lowest quote, to save on audit fees. However, comparing the tender price is not always meaningful as a charity may receive the same quoted fees from different audit firms. Instead, it is more important for a charity to carefully consider the scope of work covered for that fee. It is better for a charity to engage an auditor who can conduct an audit that is beneficial to it, carry out the audit properly and contribute through other cost savings.

A firm with more relevant experience may be able to provide greater benefits. An experienced auditor who is aware of the issues faced by a charity will be able to provide constructive advice on such matters. Examples of these issues include GST relating to charities, government grants accounting, governance issues, internal controls, board structure, restricted and designated funds, the 30/70 rule, and charity compliance.

In contrast, a cut-price audit may suggest that the auditor does not fully appreciate all the issues that impact the charity. The auditor may be unaware of the charity's audit risk areas or is unable to spot these issues. The auditor may merely 'tick the boxes' and provide the charity with little more than an audit report. Such cut-price audits may prove to be costlier in the longer term.

4.2 Choice of Financial Year End

The choice of the financial year end affects the cost of an audit. For instance, charities with a financial year ending in December to March are likely to encounter higher audit fees as this is the peak period for audit firms. Charities may wish to consider shifting their reporting year end to an off-peak period to avoid paying higher audit fees.

Moreover, many Board members are also on the Board of listed companies or other not-for-profit organisations. They are likely to be busy during the peak period and less available to the charity. Hence, shifting the year-end reporting period to an off-peak period may also be beneficial to the Board and management.

4.3 Time Spent on the Audit

Audit firms base their costs on the time spent in performing the audit, which is priced by the hour. It is in a charity's interest to minimise the number of hours spent by the auditor on the audit. For example, charities should avoid letting auditors get bogged down with performing simple tasks or correcting unnecessary mistakes because of the failure to check on accounting schedules.

Whether an audit can be performed in an efficient manner depends on a number of factors, which are elaborated in the chapters to follow.

CHAPTER 5

Setting the Right Culture for a Cost-effective Audit

A strong governance culture conducive to audits should be set by TCWG. This may be accomplished through the establishment of an effective tone from the top as well as good Board and management oversight. Charities should seek to fully understand and appreciate the functionality of these elements, which not only brings about cost-effectiveness, but also enhances accountability to stakeholders.

5.1 Effective Tone from the Top for a Cost-effective Audit

A proper tone from the top enhances an audit's effectiveness by building control consciousness. Effective leadership is essential to this process since it is the Board members and senior management who create and maintain this culture of honesty and ethical behaviour.

Ideally, a well-functioning Board should comprise members with the following knowledge and skills:

- Deep knowledge of the charity's areas of operation;
- Governance skills;
- Financial management skills; and
- Strategic and stewardship skills.

The Board members chair committees that provide oversight of the charity's processes. The number of subcommittees may depend on the charity. Some common subcommittees[3] in a charity include:

- Audit committee;
- Finance committee;
- Programmes and Services committee;
- Fundraising committee;
- Appointment/Nomination committee;
- Human Resource committee; and
- Investment committee.

[3] Please refer to https://www.charities.gov.sg/Documents/Sample_TORs_Board_Committees.pdf for a sample of the various committees' roles and responsibilities.

Board members should ensure that the appropriate tone from the top is communicated at every level of the charity. This tone is evidenced by:

- Communication and enforcement of ethical values;
- Commitment to competence;
- Participation by those charged with governance;
- Management's philosophy and operation style;
- Organisational structure;
- Assignment of authority and responsibility; and
- Human resource policies and procedures.

The right tone from the top builds a control-conscious culture that is conducive to preparing for a cost-effective audit. The control environment includes governance and management functions. It also encompasses the attitudes, awareness and actions of TCWG that concern the charity's internal control and its importance in the organisation.

With effective leaders reviewing these processes, charities may be able to avoid unnecessary audit costs. For instance, proper leadership may lead to the adoption of measures such as the careful maintenance of the charity's books and records from which its financial statements are derived. This does not merely fulfil the Board's responsibility. It also aids to minimise audit costs, which are influenced by the complexity of the charity's activities, the quality and clarity of its books and records, as well as the quality of financial statements prepared.

A charity with a cost-conscious culture also minimises the risks of breaches of trust, conflicts of interest, or financial mismanagement.

5.2 Board and Management Oversight for a Cost-effective Audit

The Board or audit committee should ensure that the effectiveness of the charity's internal controls is reviewed annually, at the minimum. This review should include an assessment of whether the controls are relevant to and appropriate for the charity and are not too onerous or disproportionate.

Small charities facing resource constraints may find it difficult to achieve a full segregation of duties. In such instances, the audit committee or management can take action to compensate for these difficulties. These actions include Board members or managers reviewing reports of transactions, or carrying out checks on controls independently of the person who normally undertakes the work.

Apart from engaging external auditors, charities can also ensure that their internal controls are working and achieve a cost-effective audit with the help of internal auditors. While internal and external auditors share some common interests, they have different purposes. The external auditor's focus is primarily to identify and assess the risk of material errors or misstatements in the audited financial statements. On the other hand, the internal auditor evaluates the effectiveness of risk management controls and governance processes within the charity.

In cases where the account balance is assessed as high risk or where there are voluminous transactions, frequent reviews of the charity's controls are essential since the auditor generally relies on these controls in key areas during the audit (Institute of Singapore Chartered Accountants, 2014). This in turn contributes to a more cost-efficient audit.

Box Story 1 highlights the importance of setting the right tone at the top and adopting oversight practices that reflect this tone, to ensure a smooth and cost-efficient audit.

Box Story 1: Handicaps Welfare Association

Note: This box story is prepared by CSDA, based on an interview conducted with Mr Chiu Tze Ming, Handicaps Welfare Association.

About the Charity

Handicaps Welfare Association (HWA) is a charity run by people with disabilities, for people with disabilities. Founded in 1969, HWA has since expanded and developed its range of services, including initiating various projects to meet the increasing and changing needs of its members. HWA offers a variety of services catered to people with physical disabilities. These include rehabilitation services, home care services, social services and transportation, all of which promote self-help while supporting beneficiaries to integrate them into mainstream society and enhance their quality of life. HWA runs two rehabilitation centres and loans mobility aids to members and the public.

Senior Finance Manager Chiu Tze Ming of Handicaps Welfare Association shares his audit experience below:

1. **What is your perception of an auditor or audit?**

   An audit is an opportunity for the management to strengthen its confidence in daily operations. The management leverages the annual audit to deliver assurance to our stakeholders that the financial statements are drawn up well by ensuring that the financial position of the association, in all material aspects, is presented fairly. To prepare for a smooth audit, we meet with the auditors prior to the closing of the financial year where we present any material matters to them.

2. **Which procedures are particularly helpful?**

   Highlighting significant matters ahead of time allows the auditors to share the best practices of industry peers, allowing us to learn from these.

3. **What issues does your charity face in preparing for an external audit?**

   We often face time constraints as the auditors are also committed to their other clients who may end their financial years at the same time as ours.

4. **How does the management manage resources to ensure that your accounts team stays competent and relevant?**

   The management fully supports our accounts team's development track and sends the team members for training on a regular basis to ensure that their skills remain relevant.

5. **What issues do you face in the preparation of the accounts?**

   We face voluminous transactions and are therefore under pressure to adhere to the timeline agreed on with the auditor. We are working against time when there are various processes from various departments that need to end up as financial transactions.

6. **In your opinion, tell us about the importance and relevance of sound internal controls in facilitating an audit?**

   Sound internal controls allow the audit to be conducted more efficiently. Strong, sound and functioning internal controls also present a lower risk profile to the auditor.

7. **What internal controls can an audit benefit from?**

   i. **Preparing budget and performing variance analysis**

      Sound internal controls support the overall business plan. They require expenditures to be properly justified in line with the development plans of the association.

   ii. **Tracking donor's wishes for amounts donated, especially when no invoices or receipts are provided**

      Except for donations deposited directly into our general donation box, we issue receipts for all donations, regardless of the source or amount donated. The public trusts that all donations received are properly accounted for and this is the top priority for our association.

   iii. **Ensuring that resources expended are justified**

      We have several tiers of approval and any expenses that exceed the budget will be discussed extensively before approval is given.

8. **How has 'setting the right tone at the top' helped to ensure a smooth and cost-effective audit?**

   The management fully supports the accounts team when the latter needs to enforce internal controls.

CHAPTER 6

Quality of Internal Controls and Documentation of Procedures and Systems

6.1 Good Internal Controls for a Cost-effective Audit

Internal controls are the processes designed, implemented, and maintained by TCWG. Internal controls provide reasonable assurance that the charity's objectives are met with regard to the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with applicable laws and regulations.

Effective internal controls enhance the charity's ability to provide effective services to the community. This reduces the possibility of the charity incurring a loss of public trust and its Board members and management suffering public censure or legal penalties (Gross, McCarthy & Shelmon, 2005).

The following sections describe the recommended controls charities should adopt. Controls refer to any aspect of one or more components of internal control. The Audit Guidance Statement 5 (AGS 5), published by the ISCA, provides more examples of internal controls that are typically expected of charities.

Operational Controls

The Code of Governance for Charities and Institutions of a Public Character (the Code) consists of a set of principles and best practices issued by the Charity Council. It guides charities on effective governance and management, thereby enabling greater accountability to the public and other stakeholders (Charity Council, 2017).

Principle 6.1 of the Code outlines three specific guidelines concerning operational controls that charities are encouraged to adopt:

i. Charities should have a documented policy to seek the Board's approval for instances where the charity provides loans, donations, grants or financial assistance that are not part of its core charitable programmes *[Principle 6.1.1 in Code 2017 for Basic Tier];*

ii. The Board should ensure that internal controls for financial matters in key areas are documented and approved by the Board *[Principle 6.1.2 in Code 2017 for Basic Tier];* and

iii. The Board should also ensure that reviews of the charity's internal controls, processes, key programmes and events are regularly conducted *[Principle 6.1.3 in Code 2017 for Basic Tier].*

Internal controls for financial matters in key areas may be categorised into those exercised over incoming and outgoing resources. These are some examples of internal controls for each category:

i. Controls over incoming resources include receipts and the tracking of a donor's wish for a donated sum.

  - Controls over receipts seeks to ensure that all cash intended for the charity is received, promptly banked, properly recorded, reconciled and kept under adequate security *[Principle 7.2.2 in Code 2017 for Basic Tier]*; and
  - Controls may also come in the form of a system that documents the donor's intention and matches the donated income to the relevant expenses. This ensures that the donated funds are utilised for their intended purposes.

ii. Controls over outgoing resources include disbursements and procurements.

  - Controls over disbursements seeks to ensure that cash is disbursed only upon proper authorisation by the management, for valid business purposes, and in accordance to donors' wishes. It also ensures that these disbursements are properly recorded *[Principle 7.2.2 in Code 2017 for Basic Tier]*; and
  - Controls over procurements takes the form of a system that delegates those persons charged with the authority to approve the procurements made. This ensures that all procurements are made only upon proper authorisation based on the supplier approval matrix. A sample is illustrated in *Table 2* below.

Table 2: Sample of Supplier Approval Matrix

Type of Purchase	Total Amount of Purchase	Quote or Solicitation Requirements	Authorised Personnel
Miscellaneous purchases	$1 - $1,000	Not required	Administrative or accounts personnel
Minor purchases	$1,001 - $6,000	Quotation required	Head of department or accounts personnel
Major purchases	$6,001 - $80,000	3 quotations required for comparison	Financial controller and Board approval
Major purchases	$80,001 and above	Tender required for comparison	Financial controller and Board approval

Note: This table is for illustrative purpose only. The actual approval limit and structure should be dependent on the size and nature of the charity.

Budget Planning and Monitoring

The management plays a key role in planning and monitoring the budget for potential misstatements. It may do so by establishing a robust process for examining significant variances from the budgets and forecasts.

Board members should approve an annual budget including cash projections and business plans. More frequent updates may be necessary if the financial climate makes it necessary or desirable to do so. This is especially true with income, which is often harder to forecast than expenditure.

With an updated budget presented at each Board meeting, Board members can conduct a more accurate review of the charity's financial position and financial performance against its budgets and future projections. Detailed analyses and explanations should be provided by the management for any major variances. Such analyses of financial trends and changes in budget predictions may assist in the early identification of financial problems. This ultimately allows auditors to adopt a more focused approach to key audit matters, resulting in a more effective audit.

Box Story 2, featuring TOUCH Community Services, illustrates the importance of having monthly reporting as well as variance analyses, to highlight unbudgeted or unusual transactions. This enables the charity to quickly follow up with corrective actions and adjustments where necessary. The box story also outlines the charity's audit process and preparation, which is covered in Chapters 3 and 7 respectively, as well as the importance of setting the right tone from the top, as previously detailed in Chapter 5.

Box Story 2: TOUCH Community Services

Note: This box story is prepared by CSDA, based on an interview conducted with Ms Rachel Yap and Ms Doreen Goh of TOUCH Community Services.

About the Charity

In 1986, a group of seven volunteers organised activities to provide children from low-income and single-parent families in the Clementi and Jurong neighbourhoods with a positive social environment. Over the decades, these activities have grown to become TOUCH Community Services, a multi-service charity with 16 types of services, 19 centres and 24 children's clubs located across Singapore. TOUCH's services cater to children, youths, families, people with special and healthcare needs and the elderly, regardless of race or religion. In addition to these local services, TOUCH International also facilitates the delivery of crisis relief and community development services overseas (TOUCH Community Services, 2017).

Finance Manager Rachel Yap and Senior Accountant Doreen Goh of TOUCH Community Services share their audit experience below:

1. **What is your perception of an auditor or audit?**

   An audit is an opportunity for the management to strengthen its confidence in daily operations. The management leverages the annual audit to deliver assurance to our stakeholders that the financial statements are drawn up well by ensuring that the financial position of the association, in all material aspects, is presented fairly. To prepare for a smooth audit, we meet with the auditors prior to the closing of the financial year where we present any material matters to them.

Steps taken in an audit:

i. An audit would generally require the auditor to first gain an understanding of the company and business environment it operates in before designing the relevant audit work plan.

ii. The auditor will test the quality of the company's internal controls to determine the extent of substantive audit work required. Auditors generally use a sample-based method to check an adequate cross section of a company's transactions. More tests will conducted for the areas identified as high risk.

    When testing transactions, auditors look at evidence and documents that support the assertion. They look at the details and events surrounding these transactions to ensure that the information was recorded at the right time in the right account.

iii. The last stage of the audit concerns the issuing of an audit report and opinion. Auditors issue an unqualified opinion if they do not find any significant issues and believe that the financial information is fairly presented. If the auditor finds a few significant issues but has the overall view that the financials are fairly presented, he or she will issue a qualified opinion. If the auditor is unable to test all the areas that he or she needs to cover, the auditor will issue a disclaimer report stating the situation. In extreme cases, the auditor may even issue an adverse opinion indicating that the financial statements are not fairly presented.

2. How does your charity prepare for a smooth and effective audit?

To prepare for a smooth and effective audit, we ensure that:

- There is a sufficient audit trail so that all transactions can be verified with their supporting source documents. Documents are systematically filed and archived to facilitate easy retrieval.
- Schedules and reconciliations are prepared regularly to analyse closing balances and highlight variances and exceptions. This enables prompt follow-ups and adjustments where necessary.
- The audit timeline is planned ahead and agreed on with the auditor. Relevant staff, especially finance personnel, should be available (i.e. not taking leave) during the period of audit to assist auditors in queries and any follow-up required.

3. What issues does your charity face in preparing for an external audit?

TOUCH has started implementing electronic forms and online approvals as part of our drive towards a paperless office. An issue that we needed to address was the capture and storage of a sufficient audit trail to document electronic workflows and approvals.

Input was sought from our external auditors early during the project implementation stage. This enabled us to address their concerns early and facilitate completion of the annual statutory audit.

4. How does the management manage resources to ensure that the accounts team stays competent and relevant?

Our staff are encouraged to upgrade their skills through training and on-the-job learning. The company also sponsors selected staff for them to pursue part-time diploma/degree courses in accounting.

Besides handling routine finance work, finance staff are also assigned to other projects, including the review of processes, analysis and reporting, implementation of new systems, conducting finance-related briefings for other staff, and fundraising.

5. What issues do you face in the preparation of accounts?

i. TOUCH has been presenting our annual financial statements based on the Singapore Financial Reporting Standards (SFRS) for statutory reporting. Since 2015/2016, there has been an additional requirement from the National Council of Social Service (NCSS) to separate reports for programme funds that are restricted and ring-fenced for specific purposes. This NCSS requirement is more aligned with the reporting requirements under the Charities Accounting Standard (CAS). TOUCH may conduct another review to consider these two options (SFRS versus CAS) for statutory reporting.

ii. Allocations of income and overhead costs had to be effected so that the programme funds of each direct service could be accounted for separately in the financial statements. The allocation basis needs to be carefully considered such that it is deemed fair and reasonable, and applicable to all the direct services.

6. In your opinion, what is the importance and relevance of sound internal controls in facilitating an audit?

With sound internal controls in place, the audit risk factor is lowered. The auditor can rely on the strong control environment and cut down on the sample size for his or her audit checks, and reduce substantive audit work.

7. What internal controls can an audit benefit from?

i. Preparing budget and performing variance analysis

Monthly reporting and variance analysis will highlight unbudgeted or unusual transactions. This enables the organisation to quickly follow up on corrective actions and adjustments where necessary.

ii. Tracking the donor's wishes for the amount donated, especially when no invoices or receipts are provided

The donor’s intention is properly documented and recorded in our files. This ensures that donation funds are utilised for their intended purposes. Clear identification of the donation’s cause enables us to match the income to its relevant expenses, which in turn enables us to report the reserves at the programme level.

iii. Ensure that resources expended are proper and justified

We use a systematic procurement and payment approval process to ensure that all expenditures are duly authorised and in order before they are incurred.

8. How has ‘setting the right tone at the top’ helped in ensuring a smooth and effective audit?

When there is a conscious effort by the management to promote good governance by ‘setting the right tone at the top’, the same culture, values and ethics for good governance will permeate throughout all levels of the organisation.

The staff will understand the importance of internal controls and be cooperative in compliance. This will reduce the risk factors and ensure a smooth and effective audit.

6.2 Good Documentation of Systems and Processes for a Cost-effective Audit

As part of good internal controls, charities are encouraged to adopt the following documentation procedures to reduce audit time.

Fundraising Procedures

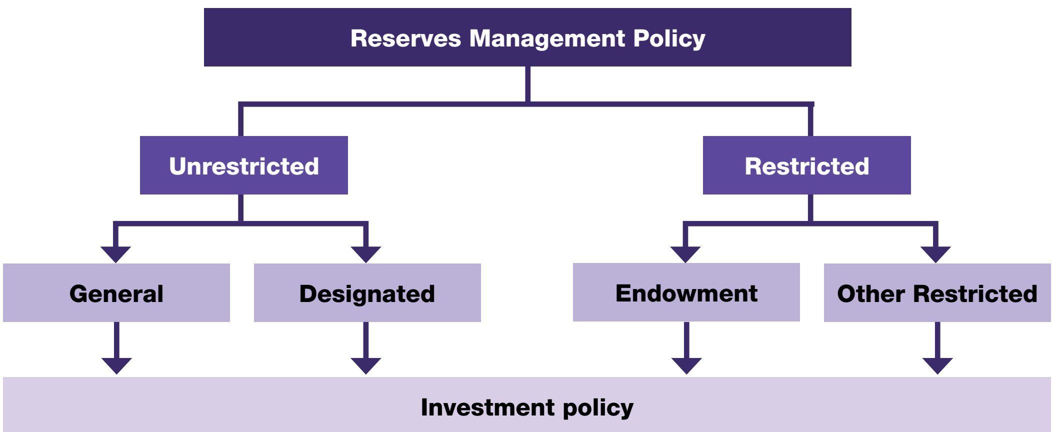
There should be documentation for:

- Procedures to ensure that the charity complies with fundraising regulations and follows good practices in all aspects of fundraising. They include fundraising methods, costs involved, financial risk and how to safeguard and use the funds raised, as well as the impact that fundraising methods may have on public opinion and the charity's reputation;
- Procedures to ensure that restricted funds (appeals for special purposes) are separately managed from the charity's general funds and are accounted for;
- Procedures for appropriate agreements with commercial fundraisers and commercial partners who raise funds on the charity's behalf;
- Procedures to ensure that the standards of fundraising practices set out by the regulators such as the '30/70' rule and the issue of tax-deductible receipts are complied with;
- Procedures to ensure that tax-deductible donations are identified by donors' names, and that there is no risk of overclaiming taxes; and
- Procedures for open and accessible channels of complaint, to facilitate the identification of improper or fraudulent fundraising activities.

Funds and Reserves Management

The charity should clearly document how its funds are to be managed. *Figure 2* shows how the reserves of a charity are categorised, and its link to the investment policy that should be put in place.

Figure 2: Funds and Reserves Management



- **Reserves Management**

The Code recommends that a charity maintain some level of reserves to ensure its long-term financial sustainability *[Principle 6.4.1a in Code 2017 for Basic Tier]*. If reserve levels are set too high, money could be tied up. This money could and should be spent on charitable activities. Conversely, if they are too low, the future of the charity may be at risk. The suitable level of reserves should ultimately be determined by the Board because it depends on each charity's circumstances.

A charity should develop a reserves policy and disclose it in its annual report, as stated in the Charities (Accounts and Annual Report) Regulations 2018. This is a legal requirement for charities with gross annual receipts or total expenditure of $500,000 and above, and all IPCs.

- **Restricted Funds**

Restricted funds and endowment funds should only be set up by charities for clear and justifiable needs *[Principle 6.4.2 in Code 2017 for Basic Tier]*.

The charity needs to ensure that controls exist to provide assurance that restricted funds are spent only on the purposes for which they were given. The controls also need to provide assurance that the endowment funds are properly invested and observe the prohibitions on expenditure, where applicable.

Some recommended procedures are:

- Recording on the nature of restrictions or conditions placed on the income received. Some charities choose to operate separate budgets and bank accounts for significant restricted funds;
- Ensuring that expenditure from restricted funds is limited to the purposes of the gift;
- Ensuring that conversion of endowed capital into expendable income requires the authorisation by the Board members;
- Ensuring that spending of capital for expendable endowments requires authorisation by the Board members;
- Ensuring that endowment assets (including land, buildings, cash, or investments) are properly recorded, adequately safeguarded, and managed in accordance with any related restrictions; and
- Ensuring that these funds are used or transferred to other funds only after obtaining the permission of the donor to do so *[Principle 6.4.2 in Code 2017 for Basic Tier].*

- **Investment of Funds**

  If the charity invests its reserves, it should do so in accordance with an investment policy approved by the Board. It should also obtain advice from qualified professional advisors, if deemed necessary by the Board *[Principle 6.4.3 in Code 2017 for Basic Tier]*. There should be documented procedures for investments, such as those outlined below:

  - Ensuring that the investment policy is adhered to by the charity;
  - Ensuring that all investment income due is promptly collected, deposited, and properly recognised;
  - Ensuring that proceeds of investment sales are reinvested and/or ploughed back for charitable purposes, and carried out in line with the terms of the endowment; and
  - Ensuring that payments relating to the maintenance of endowment, such as investment management fees relating to the endowment fund, are met from the endowment fund.

Conflict of Interest and Related Party Disclosures

The Code states that Board members and staff should act in the best interests of the charity. Therefore, each charity should set clear policies and procedures relevant to its needs. Measures should also be taken to declare, prevent, and address any conflicts of interest [Principle 2 in Code 2017 for Basic Tier]. For instance, code principle 2.1 states that charities should disclose payment details and other benefits to Board members and connected persons including family members and businesses *[Principle 2.1 in Code 2017 for Basic Tier]*. Examples of these payment details include the receipt of property, loans, goods or services from the charity. It is important to note that the disclosure of a conflict of interest does not discharge the need for authorisation of the benefits.

These documented controls do not have to be complex, but they should be regularly reviewed and updated. This includes regular updates of the register of interests. Small charities can facilitate the identification of conflict-of-interest situations by improving Board member awareness and including stronger controls such as regular reviews by the Board members or other officials of the charity.

CHAPTER 7
How should Charities Prepare for an Audit?

A charity's staff and auditors should sufficiently prepare before the start of the audit to ensure a smooth audit process. This will enhance both the charity's and auditor's understanding of each side's requirements and expectations, and thus optimising the use of audit time. To facilitate this process, there should be a clear designation of specific contacts to specific areas under audit.

Any potential scheduling conflicts between the auditing period and the availability of these points of contact should be avoided. The auditors should be notified in advance of an appropriate date to start the audit. This provides ample time for the audit firm to allocate the required resources. Charities should also ensure that the documents and schedules are ready for examination by the auditors before the start of the audit. These documents and schedules will be explained in Sections 7.1 and 7.2.

7.1 Proper Record-keeping

The charity's cooperation in supplying information needed by the auditors will contribute greatly to the audit's progress. The audit may appear to be disruptive and intrusive if records are not properly kept. Considerable time and effort may also be expended during the audit to develop such records. Therefore, charities should adopt good record-keeping procedures.

The charity's accounting staff should prepare in advance a standard accounting package to facilitate the year-end audit. The package would include the Statement of Financial Activities (SOFA), statement of financial position and statutory records. The accounting records for items such as revenue, donations, purchases and interest should be compiled and summarised by the charity's staff. The charity needs to maintain sub-ledgers and analyses for cash, receivables, inventories, other assets and financial instruments. It also needs to reconcile and make any necessary adjustments to the related general ledger accounts, preferably on a monthly basis.

A senior staff should review the package to ensure that the data compiled is complete, reasonable, and properly handled. Please refer to **Appendix D** for an illustrative timeline and deliverables in a typical statutory audit.

7.2 Accounting Records

Most of the detailed schedules requested by the auditors are items that a charity should already have as part of its normal accounting procedures. The following schedules and listings constitute a 'package' of records that are typically required for the audit.

Table 3: Accounting Records

Types of Documents	Types of Records
Statement of Financial Activities	• Records of incoming and outgoing resources for each type of fund • For public fundraising, workings that support the '30/70' Fundraising Rule should also be kept
Statement of Financial Position	• Property, plant and equipment listing • Deposits listing • Prepayments schedule • Investments listing • Inventories listing • Trade receivables aging • Trade payables aging • Accruals listing • Related party schedule
Statutory records	• Minutes of all board and subcommittee meetings

Note: This list of accounting records is not exhaustive and may differ between different charities of different size and nature.

Please refer to **Appendix E** for further illustration.

7.3 Year-end Adjustments

It is common for audit adjustments to be recorded during the course of the audit. Many of these adjustments are typically made to correct errors—which may distort the monthly financial statements used by the management—throughout the year. Financial statement distortions can be substantially reduced if details of the account are maintained and reviewed regularly to ensure timely identification and correction of errors. Without these measures, the audit time would be substantially longer than anticipated.

CHAPTER 8
Conclusion

Charities can be better prepared for audits by following the measures recommended in this booklet. An audit is an exercise in group dynamics and audit fees are partly driven by the amount of time auditors spend on the audit engagement. A cost-effective audit is therefore dependent on the level of cooperation between the audit team members and the charity's personnel.

To have a cost-effective audit, the charity should work with the auditors even before the audit begins. The audit commencement period should be clearly communicated between the auditors and charity's personnel. This allows the auditors to make sufficient preparations for the audit.

The charity should also supply the auditors with the requested audit evidence. This reduces the time needed by the auditors to satisfy themselves that the audit evidence is sufficient and appropriate. Additionally, less time will be required for the auditors to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error.

Board members and the management of charities should set the right tone from the top. There should be a strong internal consensus on the importance of an audit. Audits should not be viewed as mere box-ticking exercises. Rather, they should be regarded as a tool that helps charities enhance their accountability, while protecting their longer-term interests and purposes.

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APPENDICES

Appendix A

Case Study Background

This appendix provides background information for the case study, which includes:

- Audit opinion **(Appendices B and C)**;
- Timeline and deliverables **(Appendix D)**; and
- Accounting records **(Appendix E)**.

Illustrations provided are not exhaustive and charities should take into consideration their respective circumstances. Examples in the illustrations are fictional and any resemblance is purely coincidental.

Entity structure

Name of entity	: Friends of Jessi Faye Foundation ("FJF")
Legal status	: Company Limited by Guarantee
Incorporation date	: 17 Feb 20X6
Charity status	: Registered Charity
IPC status	: Registered IPC
Financial year end	: 30 June

Related parties

Subsidiary	: Faye Works Pte Ltd
Associates	: Mei-Ling Foundation
	: Pinnacle of Happiness Fellowship
Other related parties	: Meixi Management Services Pte Ltd
	: DS Travel Pte Ltd

Subcommittees

Audit Committee ("AC")	Finance Committee ("FC")
Programmes and Services Committee ("PSC")	Fundraising Committee ("FRC")
Appointment / Nomination Committee ("NC")	Human Resource Committee ("HRC")
Investment Committee ("IC")	

Board members

Satya Gupta	Chairman	Non-executive, Independent
Dr Jessi Lai	CEO	Executive
Dr Faye Lim	Deputy CEO	Executive
Fiona Lee	Audit Committee Chairwoman	Non-executive, Independent
Kelly Chee	Finance Committee Chairwoman	Non-executive, Independent
Nursyafiqah	Programmes and Services Committee Chairwoman	Non-executive, Independent
Praneetha	Fundraising Committee Chairwoman	Non-executive, Independent
Azman Shazwan	Appointment / Nomination Committee Chairman	Non-executive, Independent
Isaiah Hong	Human Resource Committee Chairman	Non-executive, Independent
Kevin Dennis	Investment Committee Chairman	Non-executive, Independent

The Board convenes its meeting on a monthly basis to:

- Review the budget in relation to its actual expenditure variance and analysis;
- Review the monthly financial statements;
- Review the operations and controls in place;
- Deliberate and conclude any issues or resolutions that require the Board's attention; and
- Review and approve the annual budget.

The subcommittees, headed by the respective Board members, convene their meetings at least four times a year and discharge their duties as stipulated in the terms of reference and the Board's governing instruments.

Friends of Jessi Faye Foundation ("FJF")

- Formed with the purpose of raising awareness for children with cleft lip or cleft palate;
- Provides free speech therapy sessions and clinics;
- Works with hospitals to help low income families gain access to medical services; and
- Engages in overseas projects with similar international organisations.

Faye Works Pte Ltd

- Provides art classes and workshops for children aged 12 and below

FJF was founded in 20X6 by Dr Jessi Lai and Dr Faye Lim. During its first year of incorporation, the accounts were found to be improperly kept due to a lack of qualified staff with the relevant experience needed to maintain the accounting records. The lack of required information and documents meant that auditors were unable to perform any reasonable work on certain account balances during the audit and form an opinion on those balances. Consequently, the first audit report for the reporting year ended 30 June 20X7 was issued with a modified audit opinion (See **Appendix B**).

FJF gradually resolved these issues by recruiting staff with the necessary qualifications and competencies. It also invited eight other independent individuals with various expertise to the Board of FJF, which then established appropriate risk management and internal controls to mitigate various types of risks faced by the organisation. The presence of the audit and finance committees further facilitated financial reporting, ensuring that accounting records were properly kept and financial statements were free from material error.

As a result of these initiatives, FJF consistently receives unqualified (or clean) audit reports annually (see **Appendix C**). It is also able to provide greater accountability to its stakeholders and inspire greater public confidence in its operations.

Appendix B

Modified Audit Opinion

INDEPENDENT AUDITOR'S REPORT

To the Members of Friends of Jessi Faye Foundation

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Friends of Jessi Faye Foundation (the "Charity"), which comprise the statement of financial position as at 30 June 20X7, statement of financial activities and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Companies Act), the Charities Act, Chapter 37 and other relevant regulations (the Charities Act and Regulations) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Charity as at 30 June 20X7 and of the financial performance and cash flows of the Charity for the year ended on that date.

Basis for Qualified Opinion

As indicated in Note 5 to the accompanying financial statements, the Charity has a trade receivable of $24,222 as at the balance sheet date. Due to the lack of documents and insufficient information, we were unable to perform any procedures to ascertain the existence of the receivable and whether the Charity is able to recover the debts in full. No provision for doubtful recovery has been made as at the balance sheet date.

Other Information

Management is responsible for the other information, which comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, the Charities Act and Regulations and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition. Management is also responsible for ensuring that transactions are properly authorised and recorded as necessary to permit the preparation of true and fair financial statements and maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Charity's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless management either intends to liquidate the Charity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance comprises the directors and the governing board. Their responsibilities include overseeing the Charity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Charity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Charity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required to be kept by the Charity have been properly kept in accordance with the provisions of the Companies Act, and the Charities Act and Regulations.

During the course of our audit, nothing has come to our attention that causes us to believe that during the year:

(a) the Charity has not used the donation moneys in accordance with its objectives as required under Regulation 11 of the Charities (Institutions of a Public Character) Regulations; and

(b) the Charity has not complied with the requirements of Regulation 15 of the Charities (Institutions of a Public Character) Regulations.

Audit LLP
Public Accountants and
Chartered Accountants
Singapore
15 August 20X7

Appendix C

Unqualified Audit Opinion

INDEPENDENT AUDITOR'S REPORT

To the Members of Friends of Jessi Faye Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Friends of Jessi Faye Foundation (the "Charity"), which comprise the statement of financial position as at 30 June 20X8, statement of financial activities and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Companies Act), the Charities Act, Chapter 37 and other relevant regulations (the Charities Act and Regulations) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Charity as at 30 June 20X8 and of the financial performance and cash flows of the Charity for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Charity in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information, which comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, the Charities Act and Regulations and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition. Management is also responsible for ensuring that transactions are properly authorised and recorded as necessary to permit the preparation of true and fair financial statements and maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Charity's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless management either intends to liquidate the Charity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance comprises the directors and the governing board. Their responsibilities include overseeing the Charity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Charity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Charity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required to be kept by the Charity have been properly kept in accordance with the provisions of the Companies Act, and the Charities Act and Regulations.

During the course of our audit, nothing has come to our attention that causes us to believe that during the year:

(a) the Charity has not used the donation moneys in accordance with its objectives as required under Regulation 11 of the Charities (Institutions of a Public Character) Regulations; and

(b) the Charity has not complied with the requirements of Regulation 15 of the Charities (Institutions of a Public Character) Regulations.

Audit LLP
Public Accountants and
Chartered Accountants
Singapore
5 October 20X8

Appendix D

Timeline and Deliverables

The process typically takes 8 to 9 months, from the point FJF prepares for the audit till the Annual General Meeting (AGM). The annual report is then presented to its members.

Depending on their size and nature, charities should work with their auditors on the appropriate arrangement. An approximate timeline is shown in *Table 4* below.

Timeline	Description
12 weeks before year end	• Liaise with auditors and prepare for the audit committee ('AC') meeting.
8 weeks before year end	• AC to convene its quarterly meeting; • In the same meeting, AC will review and comment on the scope of audit presented by the auditors. Depending on the circumstances, AC should assess and highlight the areas that the audit would cover; and • Management should also finalise the period for audit fieldwork as well as the date of inventories count observation with the auditors.
2 weeks before year end	• Prepare the annual inventories count on the last day of financial year end; and • Finalise the inventories count instruction and disseminate it to staff involved.
1 day before year end	• Cease all inventory movement; and • Furnish auditors with a copy of the inventories count listing.
At year-end	• Annual inventories count exercise.
8 weeks after year end	• Finalise management accounts and obtain approval of the Board, including all supplementary accounting records and schedules (see **Appendix E**), to be ready for auditor's examination; and • Commence audit field work (depending on the size and circumstances, audit fieldwork period varies).
14 weeks after year end	• Hold closing meeting between the management and auditors.
16 weeks after year end	• AC to convene its quarterly meeting; and • In the same meeting, the auditors will present their audit findings to the AC. Depending on the findings, follow-up action may be required.
18 weeks after year end	• Ensure satisfactory closure of audit findings; and • Prepare financial statements and annual report.
20 weeks after year end	• Finalise annual report and financial statements.
22 weeks after year end	• Obtain the Board's approval of financial statements; and • Serve Notice of AGM to all members.
26 weeks after year end	• Hold AGM and present annual report to its members.

Table 4: Timeline and Deliverables

Note: The illustrated timeline is based on the following assumptions: (i) no interim audit fieldwork is performed, (ii) the auditors are required to meet the AC and (iii) AGM is convened six months after year end.

Appendix E

Accounting Records

The following outlines the schedules and listings that constitute a ‘package’ of records typically required for the audit. These records are further explained in *Subsections i to xii*, the order listed in *Table 3*.

i. Statement of Financial Activities: Records for Incoming and Outgoing Resources

Charities should note the following guidelines when recording their incoming and outgoing resources:

- The records for the incoming and outgoing resources for each fund should be separately kept.
- Detailed information and supporting documents for each transaction are maintained;
- A list of donations in-kind, detailing the donor, item and estimated fair value, wherever applicable is to be kept;
- Restrictions attached to the cash and in-kind donations received are identified;
- Separate accounts for each individual fund are maintained;
- Where an activity-based approach has been adopted, details of costs allocation between the various expenditure categories of the Statement of Financial Activities should be provided; and
- A written documentation to explain any significant expenditure actual-to-budget and prior-year variances.

$'000	Unrestricted fund		Designated fund		Restricted fund	Total
	Fund A	Fund B	Fund C	Fund D	Fund E	
INCOME						
Income from generated funds	100	200	20	80	80	480
Voluntary income	–	45	60	–	–	105
Activities for generating funds	200	300	–	–	–	500
Investment income	10	–	–	–	–	10
Income from charitable activities	–	–	–	–	60	60
Other income	30	–	–	–	–	30
Total income	**340**	**545**	**80**	**80**	**140**	**1,185**
EXPENDITURES						
Costs of generating funds	(40)	(90)	–	(40)	–	(170)
Costs of generating voluntary income	–	(20)	(35)	–	–	(55)
Fundraising trading: cost of goods sold and other costs	(140)	(210)	–	–	–	(350)
Investment management costs	(5)	–	–	–	–	(5)
Charitable activities	–	–	–	–	(40)	(40)
Governance costs	(10)	(20)	(2)	(8)	–	(40)
Other expenditures	(15)	(10)	(8)	(4)	–	(37)
Total expenditures	**(210)**	**(350)**	**(45)**	**(52)**	**(40)**	**(697)**
Net income/expenditure before tax expense	130	195	35	28	100	488
Tax expense	(10)	–	–	–	–	(10)
Net income/expenditure	**120**	**195**	**35**	**28**	**100**	**478**

Table 5: Illustration of Records for Incoming and Outgoing Resources

ii. Statement of Financial Activities: The '30/70' Fundraising Rule

The following are guidelines in relation to the '30/70' fundraising rule:

- The '30/70' rule states that fundraising expenses cannot exceed 30 per cent of the donations collected through such events in a year. This is to ensure that the bulk of donations collected goes to the beneficiaries, instead of paying off fundraising bills; and
- To demonstrate that the '30/70' rule has not been breached, the charity's workings should be provided to the auditors. In the event of a breach, charities should be prepared to document the reasons justifying the breach.

iii. Statement of Financial Position: Property, Plant and Equipment (PPE) listing

Charities should note the following guidelines when preparing their PPE listing:

- A list or register of PPE that details the movements of the assets (acquisitions, gifts, disposals, scrapping, etc.) should be maintained;
- Records showing the cost (or value) of the asset and sufficient detail to enable the identification of an asset and its location should be maintained;
- Documentation for (i) acquisitions with budget approvals, (ii) title deeds and (iii) physical counts (to be inspected at regular intervals to ensure that they exist, are in good repair, and are being put to appropriate use) should be provided;
- A detailed listing of insurance coverage on the PPEs should be kept; and
- A schedule on the gains and losses on the disposals or write off should be maintained.

Asset ID	Description	Category	Depreciation period (months)	Purchase date	Cost $'000	Accumulated depreciation b/f $'000	Depreciation for the year $'000	Accumulated depreciation c/f $'000	NBV $'000
FA01	Laptop	Computer	36	01/07/20X6	15	5	5	10	5
FA02	Table and chairs	Furniture	72	01/05/20X5	45	24	8	32	13
FA03	Medical	Equipment	72	03/01/20X5	800	467	133	600	200
FA04	Renovation	Renovation	72	12/12/20X4	300	179	50	229	71
				Total =	**1,160**	**675**	**196**	**871**	**289**

Table 5A: Illustration showing a Property, Plant, and Equipment listing

Item disposed	Cost $'000	NBV $'000	Disposal amount $'000	Gain (loss) $'000
Medical equipment	275	132	135	3
Shelves	30	6	–	(6)
Total =	**305**	**138**	**135**	**(3)**

Table 5B: Illustration showing a Disposal of Property, Plant, and Equipment listing

iv. Statement of Financial Position: Deposits Listing

When preparing their deposits listing, charities should maintain details of each deposit made, with indication on which deposits are still in existence at the end of the reporting year.

Item	Supplier	Amount $'000	Payment details	Date
Rental deposit	Landlord Pte Ltd	10	Cheque 612930	12/03/20X6

Table 6: Illustration of a Deposits Listing

v. Statement of Financial Position: Prepayments Schedule

Charities should categorise the prepayment schedule into items that will be amortised evenly over the specified period and items to be expensed off upon consumption of goods or services.

Item	Supplier	Amount $'000	From	To	Monthly $'000	Balance $'000
Fire insurance	MS Insurance Pte Ltd	6	01/04/X8	31/03/X9	0.5	4.5
Workmen compensation	MS Insurance Pte Ltd	3	01/05/X8	30/04/X9	0.25	2.5
Canvas paper	Art-xi Pte Ltd	3	NA	NA	NA	3
					Total =	**10**

Table 7: Illustration showing a Prepayments Schedule

vi. Statement of Financial Position: Investments Listing

Charities should note the following guidelines when preparing their investments listing:

- To satisfy the disclosure requirements, the listing for each investment should include:
  - ¤ Opening balances;
  - ¤ Additions;
  - ¤ Disposals;
  - ¤ Fair value changes (or management's estimate); and
  - ¤ Closing balances, giving details of (i) the number, (ii) par value (unless no par value) of shares held, (iii) whether listed or (iv) unlisted, (v) closing balance, and (vi) percentage held.
- Robust documentation in establishing the fair values of the investments should be provided.
- A schedule of gains or losses on the disposal of the financial assets should be maintained.

Description	ISIN	Date of purchase	Quantity	Cost $'000	Market value $'000	Unrealised gain/ (loss) $'000	Type
Bond 1	XXXXXXX	01/04/X4	100,000	108	107	(1)	Bonds
Equity Holdings Limited	XXXXXXX	23/05/X6	3,400	16	18	2	Equities
			Total =	**124**	**125**	**1**	

Table 8A: Illustration of an Investments Listing

Investments disposed	Date of disposal	Cost $'000	FV prior to disposal $'000	Disposal amount $'000	Gain / (loss) $'000
Bond 2	04/05/X8	100	110	120	10
Bond 3	14/07/X8	100	102	101	(1)
	Total =	**200**	**212**	**221**	**9**

Table 8B: Illustration of a Disposal of Investments Listing

vii. Statement of Financial Position: Inventories Listing

Charities should note the following guidelines when preparing their inventories listing:

- An itemised listing of the inventory items on hand segregated into various classes, such as finished goods, raw materials, etc. should be provided;
- Information on the aging and allowance (as according to the charity's inventory impairment policy) for obsolete items should be included; and
- For the physical inventory count, prepare a copy of the written inventory count instructions should be prepared and furnished to the auditors well in advance of the inventory count.

Location	Inventory ID	Description	< 12 months		1 to 2 years		> 2 years		Total cost	
			Quantity	Amount $'000	Quantity	Amount $'000	Quantity	Amount $'000	Quantity	Amount $'000
Shelf 1	8221297	Assistive Hearing Device	120	36	2	0.6	2	0.6	124	37.2
Shelf 2	8463564	Magnifying glasses	250	2.5	80	0.8	100	1	430	4.3
		Total =	**370**	**38.5**	**82**	**1.4**	**102**	**1.6**	**554**	**41.5**

Table 9: Illustration of an Inventories Listing

viii. Statement of Financial Position: Trade Receivables

Charities should note the following guidelines when maintaining their trade receivables record:

- An aged listing of receivables from the date of invoice as at year-end should be provided;
- Details of the post year-end receipts should be furnished, to establish recoverability;
- While receivables arising from fundraising or grants obtained are unlikely to be overstated, this should not be assumed for the provision of goods and services and its corresponding balances. Therefore, charities need to show that there were adequate procedures performed routinely to ensure that the receivables are not overstated by known bad or doubtful accounts (such as a destitute patient of a charity hospital); and
- Assessment made by management on the allowance for impairment, and any significant estimates or judgments that have been made in the allowance should be documented.

Customer	Invoice	Invoice Date	Currency	Original currency $'000	< 30 days $'000	31 - 60 days $'000	> 60 days $'000	Total $'000
Customer A	INV 001	09/04/20X8	SGD	2	–	–	2	2
Customer B	INV 002	23/05/20X8	SGD	4	–	4	–	4
				Total =	**–**	**4**	**2**	**6**

Table 10: Illustration to show Trade Receivables Aging

ix. Statement of Financial Position: Trade Payables

When maintaining a trade payables record, charities should perform supplier reconciliation for any supplier statement received, to ensure the completeness of liabilities.

Supplier	Invoice	Invoice Date	Currency	Original currency $'000	< 30 days $'000	31 - 60 days $'000	> 60 days $'000	Total $'000
Supplier C	SUP 017	12/06/20X8	MYR	(6)	(2)	–	–	(2)
				Total =	**(2)**	**-**	**-**	**(2)**

Table 11: Illustration to show Trade Payables Aging

x. Statement of Financial Position: Accruals Listing

Charities should note the following guidelines when preparing their accruals listing:

- Support the accruals made with a reasonable basis of assumption and computation;
- Where the amount accrued is material, provide details on estimates or judgements made in preparing the accruals accounts; and
- Supporting documents on post year-end payments should be produced, to confirm the amount of a liability.

Description	Amount $'000	Remarks and basis for accrual
Accruals for petrol	0.5	Accrued based on average usage.
Accruals for communications	1	Accrued based on average usage.
CPF	10	Accrued based on actual computed.
	Total = 11.5	

Table 12: Illustration of an Accruals Listing

xi. Statement of Financial Position: Related Party Schedule

Charities should note the following guidelines when preparing their related party schedule:

- A schedule on related party transactions and balances should be maintained. Notably, the schedule should reflect a transfer of resources, services or obligations between related parties, regardless of whether a price is charged; and
- Information on the transactions should be provided, so that auditors can assess the nature of the related party relationships.

	Receivable / (Payable) balance as at 01/07/X7 ($'000)	Service fee ($'000)	Donations (with conditions attached) ($'000)	Others (e.g. travelling, rental expense) ($'000)	Amount received / (payment) made ($'000)	Receivable / (Payable) balance as at 30/06/X8 ($'000)
Subsidiary						
Faye Works P/L	**(150)**	**(200)**	**-**	**65**	**250**	**(35)**
Related parties						
Meixi Management Services P/L	(34)	(100)	-	(15)	134	(15)
DS Travel P/L	–	–	–	(500)	350	(150)
	(34)	**(100)**	**-**	**(515)**	**484**	**(165)**
Associates						
Mei-Ling Foundation	–	12	100	–	(100)	12
Pinnacle of Happiness Fellowship	–	–	200	–	(200)	–
	–	**12**	**300**	–	**(300)**	**12**

Table 13: Illustration of a Related Party Schedule

Note: See CAS Para 353 and FRS 24 (Related Party Disclosures), Para 9 for a definition of related parties.

xii. Statutory Records: Minutes of Meeting

Charities should ensure that all minutes covering meetings are duly signed, properly kept, and made available in the final form.

Appendix F

Glossary of Terms

No.	Term(s)	Meaning
1.	Institutions of a Public Character (IPCs)	The Charity Portal (2016) defines IPCs as "exempt or registered charities which are able to issue tax deductible receipts for qualifying donations to donors. In other words, donors are able to claim tax relief from their assessable income based on the amount donated, at prevailing deduction rate. As this makes IPCs generally more appealing to donors in attracting donations, these organisations are rightfully held to a higher standard, both in terms of regulatory compliance as well as governance."
2.	Those charged with governance (TCWG)	The person(s) or organisation(s) with responsibility for overseeing the strategic direction of an entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
3.	Management letter	Management letter is a formal communication from the auditor to the management on key observations and recommendations to improve in areas such as accounting, controls, or governance that have come to the auditor's attention in the course of audit.
4.	Material misstatement	According to the Public Company Accounting Oversight Board (n.d.), material misstatement refers to "financial statements that are neither presented fairly, nor in conformity with the applicable financial reporting framework." This potentially affects the financial decisions of those who rely on the statement.
5.	Restricted funds	The Charities Accounting Standard (CAS) defines restricted funds as "funds subject to specific trusts, which may be declared by the donor(s) or with their authority (e.g. in public appeal) or created through legal process, but still within the wider objects of the charity" (Accounting Standards Council Singapore, 2011).
6.	Designated funds	The Charities Accounting Standard (CAS) defines designated funds as the following: Sums in the charity's unrestricted funds that are earmarked by governing Board members to be used for particular purposes in the future. Such sums shall be accounted for as part of the charity's unrestricted funds. The governing board members have the power to re-designate such funds within unrestricted funds. (Accounting Standards Council Singapore, 2011)
7.	Solicitation requirements	Requirements during the purchase requisition process to seek information, proposals, and quotations from suppliers.
8.	Endowment funds	Endowment funds "may be restricted capital funds, where the assets are required to be invested, or retained for actual use, rather than expended" (Accounting Standards Council Singapore, 2011).
9.	Standard reporting package	The standard reporting package includes accounting records, agreements, statutory records and any other documents deemed necessary for the audit.

Acknowledgements

Booklet 5: Preparing for Cost-effective Audit

The Accounting and Finance Handbooks for Charities is a project undertaken by the Centre for Social Development Asia (CSDA) with a research grant from the Chartered Institute of Management Accountants (CIMA). The handbook project is supported by the Charity Council, with financial support from CFA Society Singapore, RSM, and Baker Tilly. Their generous financial support has enabled CSDA to develop local content and to provide these materials as free-to-use references for the charity sector.

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