

The cover features a large, light orange circle with a dashed orange border, set against a solid orange background. The title is centered within the dashed circle. At the bottom, there is a grey, textured, rounded shape.

***Guidance on
Independent Examination***

Guidance on Independent Examination

CONTENT	Page
Introduction	3
To which accounting periods does this guidance apply?	3
Who should use this guidance?	3
What is an independent examination?	3
Other external scrutiny requirements	4
Selection of independent examiners	4
Independent examiner's report	5
Commissioner of Charities' Guidance Notes:	6
Guidance Note 1 Understanding the charity	7
Guidance Note 2 Documentation	8
Guidance Note 3 Comparison with accounting records	8
Guidance Note 4 Accounting records	9
Guidance Note 5 Analytical procedures	10
Guidance Note 6 Content of financial statements, accounting policies, estimates and judgements	11
Guidance Note 7 Events subsequent to year-end	12
Guidance Note 8 Independent Examiner's Report	12
Guidance Note 9 Report to the Commissioner of Charities	13

Introduction

1. The audit threshold stipulated in the Charities (Accounts and Audit) Regulations 2011 has been raised from \$250,000 to \$500,000 on 1 March 2011. Charities that are not subject to statutory audit will need to have their accounts examined by independent examiners.

To which accounting periods does this guidance apply?

2. This guidance is applicable for the examination of financial statements for accounting period ending on or after 1 March 2011.

Who should/may use this guidance?

3. This guidance is intended for those who carry out the independent examination of the financial statements of charities with gross income or total expenditure less than or equal to \$500,000 in —

- a. the relevant year;
- b. the financial year of the charity immediately preceding the relevant year (if any); and
- c. the financial year of the charity immediately preceding the year specified in paragraph (b) (if any).

What is an independent examination?

4. Independent examination is a less onerous form of scrutiny than an audit and provides less assurance both in terms of the depth of work which is to be carried out and the qualification necessary to undertake such work. It involves:

- a. Review of the charities' accounting records;
- b. Comparison of the financial statements presented with those records; and
- c. Review of the financial statements and consideration of any unusual items or disclosures identified.

5. Verification and vouching procedures only become necessary where there are material concerns or doubts about the procedures, and/or where the charity cannot provide satisfactory explanations.

6. The independent examiner is not required to build up a body of evidence to support a positive opinion on the financial statements as required for an audit nor required to form an opinion on whether the financial statements show a "true and fair view".

Other external scrutiny requirements

7. The independent examiner must be aware that an audit obligation may arise due to requirements not under the Charities (Accounts and Annual Report) Regulations 2011, such as:

- a. Requirement under the charity's governing instrument;
- b. Requirement under another statutory or regulatory regime, such as those receiving grants from the government; or
- c. Requirement placed on the charity by a donor or grant-maker.

8. Governing board members¹ and key officers² may also opt for a statutory audit to be carried out if they prefer the higher level of assurance that it provides.

Selection of independent examiners

9. The following paragraphs set out the guidance on the selection of an independent examiner.

10. **Definition.** An independent examiner is “an independent person who is reasonably believed by the governing board members to have the requisite ability and practical experience to carry out a competent examination of the financial statements”.

11. **Independence.** For an examiner to be independent, the individual should have no connection with the governing board members which may inhibit the impartial conduct of the examination. Where a potential independent examiner is a member of the charity (e.g. a member of a church congregation), they may act as an independent examiner provided that they have not been involved in the day-to-day decision making or administration of the charity (e.g. serving on a committee or sub-committee convened by the charity).

12. **Qualifications.** An independent examiner must be competent for the tasks that he is to do and must be familiar with accounting methods. He does not need to be a practicing accountant. The governing board members must always appoint a person suitable for the charity's circumstances. Involvement in other similar charities' financial administration, previous experience in independent examination and/or practical experience in accountancy or commerce is desirable.

13. It is the responsibility of the governing board members and key officers to satisfy themselves that their independent examiner is appropriately experienced or

¹ Governing board members” means members of the governing body of a charity or trustees for a charity having the general control and management of the administration of the charity.

² Key officer” means an officer of a charity, whether or not an employee of the charity, having the general control and management of the administration of the charity, and includes any person, by whatever name called, who exercises such general control and management.

qualified to undertake the independent examination. Where appropriate, the governing board members and key officers may wish to ask an independent examiner to provide evidence of their experience, accreditation, or qualifications.

14. An independent examiner will need to be a qualified accountant if the charity's gross income or total exceeds \$250,000 but is less than or equal to \$500,000. Such qualified accountant will have to be either a member³ of the Institute of Certified Public Accountants of Singapore (ICPAS) or one of the following bodies:

- a. Institute of Chartered Accountants of Scotland (ICAS);
- b. Institute of Chartered Accountants of England and Wales (ICAEW);
- c. Institute of Chartered Accountants of Ireland (ICAI);
- d. Association of Chartered Certified Accountants (ACCA) (formerly known as the Chartered Association of Certified Accountants);
- e. Institute of Chartered Accountants in Australia (ICAA);
- f. CPA Australia (formerly known as the Australian Society of Certified Practising Accountants);
- g. New Zealand Institute of Chartered Accountants (NZICA) (formerly known as the Institute of Chartered Accountants of New Zealand);
- h. Canadian Institute of Chartered Accountants (CICA);
- i. American Institute of Certified Public Accountants (AICPA);
- j. Chartered Institute of Management Accountants of the United Kingdom (CIMA), except that CIMA members who have passed its final exams on or after May 2005 shall have passed subjects in:
 - i. Advanced Taxation; and
 - ii. Company Law and Corporate Governance

conducted in conjunction with the ICPAS Professional Examination prior to applying to be admitted as Provisional members.

Independent Examiner's Report

15. Following the examination, the independent examiner is required to produce a report. The specific reporting duties of the independent examiner are detailed in the following paragraphs.

³ ICPAS members include both practicing (audit partners) and non-practicing members (non-audit partners).

16. The independent examiner should make a report which :
- a. States his name and address and the name of the charity concerned;
 - b. Is signed by him and specifies any relevant professional qualifications/membership of any relevant professional body. Whilst the name of a partnership or company may be added, the appointment of an independent examiner relates to the individual rather than the partnership or company;
 - c. Is dated and specifies the financial year in respect of which the financial statements to which it relates have been prepared;
 - d. Specifies that it is a report in respect of an independent examination carried out under Charities (Accounts and Annual Report) Regulations 2011;
 - e. States whether or not any matter has come to the independent examiner's attention in connection with the examination which gives him reasonable cause to believe that in any material respect:
 - i. Accounting records have not been kept in respect of the charity in accordance with Charities (Accounts and Annual Report) Regulations 2011; and/or
 - ii. Financial statements do not accord with those records.
 - f. States whether or not any matter has come to his attention during the examination to which, in his opinion, attention should be drawn in the report in order to enable a proper understanding of the financial statements to be reached; and
 - g. Contains a statement as to any of the following matters has become apparent to the examiner during the examination, namely, that:
 - i. There has been any material expenditure or action which appears not to be in accordance with the charity's objects; or
 - ii. Any information or explanation has not been afforded to him.

Commissioner of Charities' Guidance Notes

17. The Commissioner of Charities' Guidance provides the procedural basis or framework to define how the reporting duties of the independent examiner must be met. There are 9 specific Guidance Notes that the independent examiner must address in carrying out an examination.

Guidance Notes	
1.	Understanding the charity
2.	Documentation
3.	Comparison with accounting records
4.	Accounting records
5.	Analytical procedures
6.	Content of financial statements, accounting policies, estimates and judgements
7.	Events subsequent to year-end
8.	Independent Examiner's report
9.	Reports to Commissioner of Charities

Guidance Note 1 – Understanding the Charity

1.1 It is important for the independent examiner to have an understanding of the charity's governing instrument, organisation, accounting systems, activities and nature of its assets, liabilities, income and expenditure in order to plan the examination procedures appropriate to the charity's circumstances.

1.2 The steps taken by an examiner will normally include:

- a. Consideration of the charity's governing document, paying particular attention to the charity's objects, powers and obligations;
- b. Discussions with the governing board members and, where appropriate, the charity's staff to ascertain the structure, methods and means by which the charity seeks to achieve its objects;
- c. Discussions with the governing board members and, where appropriate, the charity's staff about the affairs, and activities of the charity in order to gain an insight into any special circumstances and problems affecting the charity;
- d. Reviewing the minutes of board meetings to ascertain details of major events, plans, decisions and changes to the board; and
- e. Obtaining details of accounting records maintained and methods of recording financial transactions.

Guidance Note 2 – Documentation

2.1 The independent examiner should record the examination procedures carried out and any matters that are important to support conclusions reached or statement provided in the examiner's report.

2.2 The working papers should provide details of the work undertaken and support any conclusions reached, and record any judgmental matters which may arise. Working papers should be retained by the independent examiner for five years from the end of the financial year to which they relate, and will include:

- a. A letter of engagement from the independent examiner to the governing board members, and of the governing board members' acceptance (e.g. a return copy of the letter signed by a representative of the governing board members);
- b. Relevant information extracted or obtained from the governing document, board meeting minutes and a record of discussions with the governing board members and the charity's staff;
- c. Details of procedures carried out during the independent examination, with conclusions reached and any areas of concern identified;
- d. Notes as to how any areas of concern have been resolved and details of any verification procedures used;
- e. Schedules showing the breakdown of accounting items that have been aggregated for financial statements disclosure purposes;
- f. Copies of any trial balance, financial statements and annual report; and
- g. Copies of any written assurances obtained from the governing board members confirming amounts included within the financial statements.

Guidance Note 3 – Comparison with Accounting Records

3.1 The independent examiner should compare the charity's financial statements with its accounting records in sufficient detail to ascertain on a reasonable basis whether the financial statements are in accordance with such accounting records.

3.2 All balances in the financial statements will need to be compared with the trial balance or any ledger maintained. Test checks should be conducted on the posting of entries from books of primary entry (e.g. petty cash book, any sales or purchase ledgers or day books or gift aid records) to any ledger and/or to the trial balance. Similar checks are also necessary even where accounting records are maintained via computer accounting packages.

3.4 A review of bank reconciliations, payroll summaries and control accounts prepared will provide a useful check on the completeness of posting from books of primary entry.

3.5 There is no requirement for accounting entries to be checked against source documents (e.g. invoices, supplier statements, purchase orders, gift aid records etc) unless concerns arise during the examination that cannot be resolved by seeking explanations.

3.6 Whilst the governing board members are responsible for the preparation of the financial statements, the independent examiner may also prepare the financial statements on behalf of the governing board members on occasions. The preparation of financial statements will not generally impinge on independence provided the examiner ensures that the requirements of the Guidance are met and avoids involvement in the management or administration of the charity. Where reliance is placed on the work undertaken during the preparation of financial statements (e.g. posting of accounting entries), the independent examiner should consider whether separate procedures as set out above are also necessary, to ensure that this Guidance has been met.

Guidance Note 4 – Accounting Records

4.1 The governing board members are responsible for maintaining the accounting records.

4.2 The independent examiner is required to review the accounting records with a view to identifying any material failure to maintain such records in accordance with the Charities Act and Charities (Accounts and Audit) Regulations 2011. The examination procedures are not aimed at identifying the occasional omission or insignificant error, but at any gross failure to maintain records in a manner consistent with statutory requirements.

4.3 Accounting records should be well organised and capable of ready retrieval and analysis. The records may take a number of forms, e.g. book form, loose-leaf binder or computer records. The accounting records should:

- a. Be up to date;
- b. Be readily available; and
- c. Provide the basic information from which the financial position can be determined, not only at the end of the financial period, but also on any selected date.

4.4 The accounting records should contain:

- a. Details of all money received and expended, the date, and the nature of receipt or expenditure; and

- b. Details of assets and liabilities.

4.5 Smaller charities may not maintain formal ledgers to record assets and liabilities, hence, the requirements can generally be met by maintaining files for unpaid invoices and amounts receivable. A record of property, plant and equipment is generally necessary to meet the accounting requirements.

Guidance Note 5 – Analytical Procedures

5.1 It is important that the independent examiner undertake an analytical review that looks carefully at the final financial statements to see if they reveal any unusual items, unexpected fluctuations, or inconsistencies with other financial information. Steps taken will normally include:

- a. Comparing the financial statements with those for comparable prior periods;
- b. Comparing the financial statements with any budgets or forecasts that have been produced;
- c. Considering whether income and expenditure are consistent with known fund-raising sources, payroll details, activities, and the charity's objectives – it is important to have obtained a proper understanding of the nature of the charity's activities and affairs for this aspect of the review to be successful;
- d. Considering whether the liabilities and current assets disclosed are consistent with the scale and type of activities undertaken;
- e. Considering whether non-current investments are producing income consistent with the nature of assets held; and
- f. Considering whether the property, plant and equipment are consistent with the scale and type of activities undertaken by the charity.

5.2 Where analytical review procedures identify any unusual items or unexpected fluctuation/ inconsistency, the examiner must seek explanation from the governing board members, and where appropriate, the charity's staff.

5.3 If the independent examiner has reason to believe that the financial statements may be materially mis-stated, additional procedures which include verification of asset, liability, income or expenditure must be carried out. Such procedures may include:

- a. Physical inspection of a property, plant and equipment;
- b. Verification of title to an asset;

- c. Inspection of third party documentary evidence (e.g. invoice, contract or agreement) to verify an expense or liability or to confirm an amount received or receivable;
- d. Third party certification of a bank balance, or other asset held, including the custody of investment certificates; and
- e. Checking of a post year end receipt or payment to confirm recoverability of a debt or the amount of a liability.

Guidance Note 6 – Content of Financial Statements, Accounting Policies, Estimates and Judgments

6.1 The independent examiner can refer to either the CAS or FRS for guidance on the requirements of the form and content of the charity's financial statements.

6.2 Where financial statements are prepared using the CAS or SFRS, the fundamental accounting concepts, consistency of application and their appropriateness to the activities of the charity should be reviewed.

6.3 The accounting policies adopted, and also any estimates or judgments made in preparing the financial statements, may have a material effect on both the financial activities and state of affairs disclosed by the financial statements. Matters that require careful consideration by the independent examiner include:

- a. Transfers to or from designated fund;
- b. Valuation of donations-in-kind;
- c. Valuation of non-current investments where no market prices exist;
- d. Estimates resulting from transactions not being fully recorded in the accounting records.

6.4 The examiner should be satisfied that:

- a. The financial statements are prepared on a basis consistent with the going concern assumption and accrual concept (where applicable);
- b. The accounting policies adopted and applied are appropriate to the charity's activities; and
- c. The financial statements are relevant, reliable, comparable and understandable.

Guidance Note 7 – Events subsequent to year-end

7.1 An event occurring after the balance sheet date may have a material effect on both the financial activities and state of affairs as disclosed by the financial statements.

7.2 The events that have occurred subsequent to the year-end should therefore be discussed with the governing board members and, where appropriate, with the charity's staff. Any effects on the financial statements under review should be considered. The matters that should be discussed include:

- a. Whether any income anticipated and accrued into the financial statements at the year-end has proved irrecoverable;
- b. Discovery of an error or fraud;
- c. Repayment of a grant or donation received; and
- d. A valuation of a property indicating a permanent diminution in value.

7.3 Where an event occurring subsequent to the year-end affects the amount or disclosure of an item in the financial statements, this should be highlighted to the governing board members so as to make the necessary adjustments or disclosure in the financial statements.

Guidance Note 8 – Independent Examiner's report

8.1 The independent examiner should review and assess all conclusions drawn from the evidence obtained from the examination. He must ensure that the report made gives a clear explanation of the matter and of its financial effects on the financial statements presented. If the financial effect cannot be ascertained due to uncertainty, the nature of the uncertainty should be explained.

8.2 The independent examiner must state the following in his report:

- a. Whether any material matter has come to attention during the examination that gives reasonable cause to believe:
 - i. Accounting records have not been kept in accordance with the Charities Act and Charities (Accounts and Annual Report) Regulations 2011; and/or
 - ii. Financial statements do not accord with the accounting records.
- b. The nature of the failure of the material matter highlighted above and its financial effects on the financial statement;
- c. Remaining concerns after amendments or adjustments have been made by the governing board members;

- d. Material expenditure or action which appears not to be in accordance with the charity's objects;
- e. Failure to be provided with information or explanation by any past or present governing board members, officers or employee that is considered necessary for the examination; and
- f. Any other matter that has come to his attention during the examination.

8.3 Small or immaterial levels of expenditure on purposes outside of the charity's objects will not generally be included in the independent examiner's report, unless they are of a recurrent nature. The examiner does not need to carry out specific checks or procedures to identify such breaches, but such matters when identified must be included in his report.

Guidance Note 9 – Report to the Commissioner of Charities

9.1 The independent examiner should inform the office of the Commissioner of Charities in writing if, whilst acting in the capacity of the independent examiner, information or evidence is obtained which gives the examiner reasonable cause to believe that any one or more of the governing board members has/have been responsible for deliberate or reckless mismanagement or misconduct in the administration of the charity. A reporting requirement will also arise if a material loss or misapplication of funds has resulted or can result.

9.2 In the report, the independent examiner should state:

- a. The charity's name and unique entity number (UEN) number;
- b. State that the report is made in accordance with 'Guidance Note 9' provided in this guidance;
- c. Describe the matter giving rise to concern and, where possible, provide an estimate of the financial implications; and
- d. Where the governing board members are attempting to redress the situation, a brief description of any steps being taken.

9.3 A reporting requirement will not arise through mere oversight or error of judgement on the part of a governing board member whilst endeavouring honestly to carry out trustee duties. It is also unlikely that a reporting duty will arise if the matter has been satisfactorily resolved internally.