

CONSULTATION PAPER ON DRAFT PROPOSALS OF ASC COMMITTEE FOR CHARITIES

The Accounting Standards Council (ASC) is seeking feedback on the draft accounting proposals and reporting requirements pertaining to charities and Institutions of a Public Character (IPCs) in Singapore.

INTRODUCTION

2. The Accounting Standards Act was passed in Parliament on 27 Aug 2007 and came into effect on 1 Nov 2007. The ASC is established under the Act to take over the task of prescribing accounting standards for companies from the Council on Corporate Disclosure and Governance (CCDG). The ASC is also responsible for prescribing accounting standards for charities, co-operatives and societies.

3. A Committee for Charities is set up under the ASC to prescribe accounting standards for charities and IPCs (see Annex A for the composition). Currently, there are about 2,000 charities and IPCs in Singapore. While charities with annual receipt above \$250,000 and all IPCs are required to engage external auditors to audit their accounts, only those set up as Company Limited by Guarantee (CLG) and the large IPCs with annual receipts of \$10m or more are required to comply with Financial Reporting Standards (FRS), as stipulated by Companies Act and Charities Act respectively¹. The Recommended Accounting Practice 6 (RAP 6), which includes some additional disclosure requirements, is only recommended as a best practice and not mandatory. The rest of the charity sector does not have clear financial standards.

4. Moving forward, ASC Committee for Charities will prescribe one set of accounting standards for charities and IPCs. This means that all registered charities and IPCs, regardless of whether they are legally constituted as CLG under the Companies Act or as societies under the Societies Act, or trusts under the Trustees Act, will only have to comply with the accounting standards for charities and IPCs issued by ASC.

5. In drawing up these proposals, the ASC Committee for Charities is guided by the following principles:

- a) The accounting standards should provide transparent and accountable financial reporting. This means that there is a need for greater disclosure to help increase the level of transparency and accountability to the donating public, and enhance public confidence in the charity sector.
- b) The accounting standards should not be "one-size-fits-all", but be stratified, with larger charities and IPCs, and those that raise funds from the public (typically IPCs) subjected to more stringent reporting requirements.

¹ This forms about 15% of the charity sector.

ASC COMMITTEE FOR CHARITIES' RECOMMENDATIONS

Determination of Size of Charities/IPCs

6. Currently, charities and IPCs are classified as large and non-large charities/IPC, where charities/IPC with an annual receipt of \$10m or more for two consecutive years are considered as large, and the non-large charities/IPC is the otherwise. A large charity/IPC will become a non-large charity/IPC, when the income of one of the two consecutive years is less than \$10m. However, for a non-large charity/IPC to become a large charity/IPC, its income must be \$10m or more for two consecutive years.

7. In addition, only income is used to determine the size of charities/IPC. While income is a good proxy of the size of charities and IPCs, it should not be the only indicator. The expenditure should also be considered as it provides an indication of the level of activities in the charities/IPC and the amount of money disbursed to the beneficiaries.

8. **Proposal 1**: The ASC Committee for Charities therefore proposes

- a) **To retain the current two categories of large and non-large charities.**
- b) **However, instead of just using income alone to determine the size of charities/IPC, it is proposed to use income or expenditure (whichever is higher) to determine the size of charities/IPC. This will provide a more accurate indication of the size and operation of the charities and IPCs.**
- c) **For a charity/IPC to be considered large, its annual income or expenditure (whichever is higher) must be \$10m or more for two consecutive years.**
- d) **For a large charity/IPC to be classified to non-large, its annual income or expenditure (whichever is higher) of the two consecutive years must be less than \$10m.**

Definition of Income and Expenditure

9. Currently, Charities Act defines income as gross receipts from all sources and does not have a definition for expenditure. The definition of income in the FRS which includes both revenue and realised and unrealised gains is similar to Charities Act. However, UK Statement of Recommended Practice, Accounting and Reporting by Charities (SORP for Charities) and RAP 6's definition of income are narrower. It excludes gains from disposal of fixed assets, revaluation gains from investments and assets and income received into endowment funds. This means that SORP for Charities and RAP 6's definition of income do not include income that is not derived from its normal course of business.

10. The ASC Committee for Charities is of the view that unrealised gain/loss should not be considered as income/expenditure of the charity/IPC because these gains/losses are still not realised. Hence, it is not representative of the financial state of charity/IPC. Moreover, unrealised gain/loss will fluctuate from year to year according to market

conditions, which will cause constant fluctuations to the annual income/expenditure of the charity/IPC. The Committee is also of the view that should any fund be permitted to be released from Endowment Fund it must be recognised as income at the time of release.

11. **Proposal 2:** Hence the ASC Committee for Charities proposes that

- a) **Income is defined as gross receipts from all sources, includes funds released from Endowment Fund (unless it was previously transferred from General Reserves) but excludes unrealised gains.**
- b) **Expenditure is defined as gross expenses from all sources but excludes unrealised loss.²**

Presentation Format

12. Currently, most charities and IPCs prepare their income statement and balance sheet in accordance to FRS 1. The income statement as prescribed by FRS 1 requires all income and expense items recognised in a period to be included in profit and loss, with details of transactions disclosed in the notes to the accounts. ASC Committee for Charities is of the view that the income statement should show (a) *all* incoming resources and resources expended by the charity/IPC in the year on *all* its funds; (b) whether there has been a net inflow or outflow of resources, including capital gains and losses on assets; and (c) a reconciliation of all movements in the charity's/IPC's funds in a single accounting statement. This will be clearer to the public as it shows how the charity/IPC uses its resources in furtherance of its objects for the provision of benefits to its beneficiaries at one glance. This is similar to the practice in the UK charity sector.

13. **Proposal 3:** Hence, in line with the guiding principle to promote more transparency and accountability, ASC Committee for Charities proposes that income statement and balance sheet be presented in the format found in **Annex B**.

Tiering of Standards for Charities/IPC's

14. Currently, charities set up as CLGs and all large IPCs with annual receipts of \$10m or more are required to comply with FRS, as stipulated by Companies Act and Charities Act respectively.

15. **Proposal 4:** Moving forward, ASC Committee for Charities proposes that

- a) **Large charities & large IPCs with annual income or expenditure \$10m or more for two consecutive years to comply with all the clauses in FRS except FRS 1.**

² A transfer from Endowment Fund is not Expenditure but a movement from General Reserves to the Endowment Fund which is a form of Restricted Reserve. Thus, such a transfer would be shown as a movement in the Reserves.

FRS 1 will be substituted by presentation format stipulated by ASC Committee for Charities.

- b) Non-Large Charities & IPCs with annual income or expenditure less than \$10m are to follow a simplified Charity Accounting Standards for non-large charities/IPC's (CAS). The CAS is essentially simplified FRS with less clauses and will be written in simpler language. This will be developed by ASC Committee for Charities.**
- c) To assist the non-large charities/IPC's in preparing the accounts, the ASC Committee for Charities will design accounting templates for non-large charities/IPC's.**

Audit Threshold

16. Charities Act and Charities (IPC) Regulations require all IPCs, and non-IPC charities with annual receipt or expenditure above \$250,000 to engage external auditors to audit their accounts. For all others, their accounts need to be examined by an independent examiner or an approved company auditor.

17. **Proposal 5: The ASC Committee for Charities proposes that**

- a) All IPCs (regardless of size) continue to be required to engage external auditors to audit their accounts.**
- b) For non-IPC charities, the current statutory threshold for audit will be increased from income/expenditure of \$250,000 to \$500,000. This is in line with the threshold set by Societies Act for societies. With this proposed change, about 200 charities will no longer required to engage external auditors to professionally audit their accounts.**
- c) However, for non-IPC charities with income or expenditure between \$250,001 to \$500,000, they will need to have their accounts examined by independent qualified accountants who are either members of Institute of Certified Public Accountants of Singapore (ICPAS) or any other bodies approved by ICPAS. ASC Committee for Charities will prescribe the format of opinion statement.**
- d) For non-IPC charities with income or expenditure of \$250,000 or less, they can continue to have their accounts examined by independent examiner. An independent examiner is an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts. ASC Committee for Charities will prescribe the format of opinion statement.**

18. The summary of proposal 5 is shown in Table 1 below:

Table 1: Audit Threshold

	Audit Threshold (income/ expenditure)	Statutory Requirement
Non-IPC Charities	\$0-\$250,000	Independent Examiner
	\$250,001 - \$500,000	Independent Qualified Accountant
	>\$500,000	Statutory Auditor
IPCs	All IPCs	Statutory Auditor

Accrual Accounting

19. Currently, non-IPC charities with gross annual income not exceeding \$50,000 may choose to prepare a receipts & payments account together with a statement of assets and liabilities.

20. **Proposal 6:** Since FRS and the to-be-developed CAS will require financial statements to be prepared using accrual basis, it is proposed that all charities and IPCs, regardless of size, to prepare accounts using accrual accounting.

Depreciation Policy for Charities/IPCs

21. The ASC Committee for Charities understands that Singapore Land Authority (SLA) grants short term leases to charities/IPCs [either a 3-year tenancy or yearly Temporary Occupation Licence (TOL)]. In accordance to the accounting practice, the auditors will require the charities/IPCs to depreciate the buildings based on the tenure of the lease. This is notwithstanding that the charities/IPCs may have incurred a huge sum of money in developing a purpose-built building or to reconfigure and renovate an existing disused government building. There are instances that auditors took the prudent stand and qualify charity's/IPC's accounts for not depreciating the building value over the short lease period, which if so done would mean unrealistically high depreciation and huge deficits for charities/IPCs.

22. **Proposal 7:** Hence, ASC Committee for Charities proposes the following recommended depreciation policy (see Table 2 below) to provide guidance for depreciation policy for charities/IPCs.

Table 2: Recommended Depreciation Policy

Assets	Recommended Depreciation Policy
Freehold Buildings	50 years
Purpose Built Buildings on State Land	30 years
Premises at State building on Temporary Occupation Licence (TOL) or Tenancy Agreement	3-9 years
Premises at HDB Void Decks	2-5 years

Annual Report

23. The charity's/IPC's annual report is one key document that provides timely and regular information on the charity and enable the reader to understand the charity's objectives, structure, activities and achievements. Currently, all charities and IPCs are required to disclose information stipulated by Charities (Annual Report) Regulations (see Annex C for details) in their annual report.

24. Proposal 8: After reviewing the requirements in UK SORP for Charities, RAP6, and Charities (Annual Report) Regulations, ASC Committee for Charities proposes that the Charities (Annual Report) Regulations to be amended to require all charities and IPCs to disclose additional pertinent information as listed in Annex D. This will help to enhance their transparency and accountability to their stakeholders.

25. A list of the ASC Committee for Charities' proposals is provided in Annex E.

CONCLUSION

26. With growing discernment of informed giving, it is important that charities/IPC's provide useful and accurate information on their financial position and activities to the public. It is thus important that financial statements should be prepared according to the highest standards to ensure the accuracy and relevance of the information reflected in the financial statements.

27. The ASC Committee for Charities is interested to hear comments from charities, IPCs and the donating public on the draft proposals. The ASC Committee for Charities will be holding focus group discussions with charities and IPCs to seek their views. The public can send your inputs through from **Monday 4 August 2008 till Sunday 7 September 2008 via the following portals:**

- a) ASC Portal at <http://www.asc.gov.sg>
- b) Charity Portal at <http://www.charities.gov.sg>
- c) REACH Portal at <http://www.reach.gov.sg>

----The End----

ASC COMMITTEE FOR CHARITIES

S/N	Name	Designation
Chairman		
1.	Mr. Low Puk Yeong	Commissioner of Charities
Members		
2.	Mr. Gerard Ee	Chairman, NKF Singapore Board of Governor of Lien Foundation
3.	Mrs. Boon-Ngee Sebastian	Director (Grant Management), Singapore Totalisator Board
4.	Mr. Sajjad Akhtar	Managing Partner, PKF-CAP LLP
5.	Mr. Foong Daw Ching	Managing partner, Baker Tilly TFWLCL
6.	Mr. Noris Ong Chin Guan	Chairman of Bedok Citizens' Consultative Committee Welfare & Education Fund (CCCWEF)
7.	Ms Clara Goh	Chief Financial Officer, The Esplanade Co Ltd
8.	Ms Lynda Soong	Director (Community Partnership Development Division), Ministry of Health
9.	Ms Goh Poh Gek	Financial Controller, Ministry of Education
10.	Ms Bernadette Lau	Director (Corporate Services and Membership Division), National Council of Social Service
11.	Mr Eugene Heng	Head, Registry of Societies, Ministry of Home Affairs

TABLE A: STATEMENT OF FINANCIAL ACTIVITIES

Reference	Statement of Financial Activities	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Funds	Prior Year Total Funds
A	<u>Incoming resources</u>					
A1	Incoming resources from generated funds					
A1a	Voluntary income					
A1b	Activities for generating funds					
A1c	Investment income					
A2	Incoming resources from charitable activities					
A3	Other incoming resources					
	Total incoming resources					
B	<u>Resources expended</u>					
B1	Costs of generating funds					
B1a	Costs of generating voluntary income					
B1b	Fundraising trading: cost of goods sold and other costs					
B1c	Investment management costs					
B2	Charitable activities					
B3	Governance costs					
B4	Other resources expended					
	Total resources expended					
	Net incoming / outgoing resources before transfers					
	Transfers					
C	Gross transfers between funds					
	Net incoming resources before holding gains and losses					
D	Other recognised gains/losses					
D1	Gains on revaluation of property, plant and equipment for charity's own use					
D2	Gains/losses on investment assets					
	Net movement in funds					
E	Reconciliation of Funds					
	Total funds brought forward					
	Total funds carried forward					

**Note: this does not mean that the items, headings and sub-headings need be identified by the letters and numbers assigned to them in the format.*

TABLE B: BALANCE SHEET

Reference	Balance Sheet	Total Funds	Prior Year Funds
A	<u>Fixed assets:</u>		
A1	Intangible assets		
A2	Property, plant and equipment		
A3	“Preservation of Monuments” assets		
A4	Investments:		
A4a	Investments		
A4b	Programme related investments		
	Total fixed assets		
B	<u>Current assets:</u>		
B1	Stocks and work-in-progress		
B2	Debtors		
B3	Investments		
B4	Cash at bank and in hand		
	Total current assets		
C	<u>Liabilities:</u>		
C1	Creditors: Amounts falling due within one year		
	Net current assets or liabilities		
	Total assets less current liabilities		
C2	Creditors: Amounts falling due after more than one year		
C3	Provisions for liabilities and charges		
	Net assets or liabilities		
D	The funds of the charity:		
D1	Endowment funds		
D2	Restricted income funds		
D3	Unrestricted income funds		
D3a	Unrestricted income funds		
D3b	Revaluation reserve		
	Total unrestricted funds		
	Total charity funds		

**Note: this does not mean that the items, headings and sub-headings need be identified by the letters and numbers assigned to them in the format.*

**REQUIREMENTS UNDER THE CHARITIES (ANNUAL REPORT)
REGULATIONS**

Administrative Details and Trustees

- (i) A description of the instrument setting up the charity;
- (ii) Charity registration number;
- (iii) ROS/ACRA number
- (iv) Registered address of the charity;
- (v) Names of the charity trustees and their dates of appointment;
- (vi) Names, designations and dates of appointment of the members of the management committee, advisory council or other similar body, if any; and
- (vii) Names of the bankers, lawyers, auditors, investment advisers or other advisers of the charity

Structure, Governance and Management

- (i) An explanation of the objectives of the charity and a description of the way in which the charity is organised, and the policies adopted during the financial year in pursuance of its objectives;

Achievements and Performance

- (i) A Review of the activities during the financial year

Financial Review

- (i) An explanation of the purposes for which the charity's assets are held and an indication of the charity's future plans and commitments, with particular regard to on-going items of expenditure, projects not yet completed and obligations not yet met.
- (ii) A review of the financial state of the charity and an explanation of all major financial transactions and salient features of the statement of accounts prepared in accordance to Act.

ADDITIONAL REQUIREMENTS FOR ANNUAL REPORT

Structure, Governance and Management

- (i) Organisation structure of charity
- (ii) Methods adopted for recruitment and appointment of new trustee
- (iii) Transactions and benefits between charity and related parties
- (iv) Grant-making policy
- (v) Policy towards contribution of volunteers

Achievements and Performance

- (i) Investment performance

Financial Review

- (i) Policy on reserves and level of reserves
- (ii) What the reserves are being held for and when they are likely to be spent
- (iii) Funds in deficit (with details)
- (iv) Investment policy
- (v) Principal funding sources
- (vi) How expenditure in the year supported the key objectives

Custodian Trustee

- (i) Funds held on behalf of others (where appropriate)

LIST OF ASC COMMITTEE FOR CHARITIES' DRAFT PROPOSALS

S/N	Current Situation	Proposals
Determination of Size of Charities/IPC's		
1)	Charities and IPCs are classified as large and non-large.	Proposal 1a: To retain the current two categories of large and non-large charities.
2)	Only income is used to determine the size of charities/IPC's. Expenditure is not used.	Proposal 1b: To use income or expenditure (whichever is higher) to determine the size of charities/IPC's.
3)	Charities/IPC's with an annual receipt of \$10m or more for two consecutive years are considered as large, and the non-large charities/IPC's is the otherwise.	Proposal 1c: For a charity/IPC to be considered large, its annual income or expenditure (whichever is higher) must be \$10m or more for two consecutive years.
4)	A large charity/IPC will become a non-large charity/IPC, when the income of one of the two consecutive is less than \$10m. However, for a non-large charity/IPC to become a large charity/IPC, its income must be \$10m or more for two consecutive years.	Proposal 1d: For a large charity/IPC to be classified to non-large, its annual income or expenditure (whichever is higher) of the two consecutive years must be less than \$10m.
Definition of Income and Expenditure		
5)	Charities Act defines income as gross receipts from all sources.	Proposal 2a: Income is defined as gross receipts from all sources, includes funds released from Endowment Fund (unless it was previously transferred from General Reserves) but excludes unrealised gains.
6)	Charities Act does not have a definition for expenditure.	Proposal 2b: Expenditure is defined as gross expenses from all sources but excludes unrealised loss.

Presentation Format																		
7)	Most charities and IPCs prepare their income statement and balance sheet in accordance to Financial Reporting Standards (FRS) 1.	Proposal 3: All charities and IPCs to present their income statement and balance sheet in the format stipulated by ASC Committee for Charities, as found in <u>Annex B</u> .																
Tiering of Standards for Charities and IPCs																		
8)	Charities set up as Company Limited by Guarantee (CLG) and all large IPCs with annual receipts of \$10m or more are required to comply with FRS, as stipulated by Companies Act and Charities Act respectively.	<p>Proposal 4a: Large charities & large IPCs with annual income or expenditure \$10m or more for two consecutive years to comply with all the clauses in FRS except FRS 1. FRS 1 will be substituted by presentation format stipulated by ASC Committee for Charities.</p> <p>Proposal 4b: Non-Large Charities & IPCs with annual income or expenditure less than \$10m are to follow a simplified Charity Accounting Standards for non-large charities/IPC (CAS). The CAS is essentially simplified FRS with less clauses and will be written in simpler language. This will be developed by ASC Committee for Charities.</p> <p>Proposal 4c: To assist the non-large charities/IPC in preparing the accounts, the ASC Committee for Charities will design accounting templates for non-large charities/IPC.</p>																
Audit Thresholds																		
9)	All IPCs, and non-IPC charities with annual receipt or expenditure above \$250,000 to engage external auditors to audit their accounts. For all others, their accounts need to be examined by an independent examiner or an approved company auditor.	<p>Proposal 5: The summary of proposal 5 is shown in Table 1 below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">Table 1: Audit Threshold</th> </tr> <tr> <th></th> <th>Audit Threshold (income/ expenditure)</th> <th>Statutory Requirement</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Non-IPC Charities</td> <td>\$0-\$250,000</td> <td>Independent Examiner</td> </tr> <tr> <td>\$250,001 - \$500,000</td> <td>Independent Qualified Accountant</td> </tr> <tr> <td>>\$500,000</td> <td>Statutory Auditor</td> </tr> <tr> <td>IPCs</td> <td>All IPCs</td> <td>Statutory Auditor</td> </tr> </tbody> </table>	Table 1: Audit Threshold				Audit Threshold (income/ expenditure)	Statutory Requirement	Non-IPC Charities	\$0-\$250,000	Independent Examiner	\$250,001 - \$500,000	Independent Qualified Accountant	>\$500,000	Statutory Auditor	IPCs	All IPCs	Statutory Auditor
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Depreciation Policy for Charities and IPCs														
11)	No recommended depreciation policy and hence the auditors require the charities/IPC's to depreciate the buildings based on the tenure of lease.	<p>Proposal 7: Recommended Depreciation Policy is summarised in Table 2 below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">Table 2: Recommended Depreciation Policy</th> </tr> <tr> <th style="text-align: center;">Assets</th> <th style="text-align: center;">Recommended Depreciation Policy</th> </tr> </thead> <tbody> <tr> <td>Freehold Buildings</td> <td style="text-align: center;">50 years</td> </tr> <tr> <td>Purpose Built Buildings on State Land</td> <td style="text-align: center;">30 years</td> </tr> <tr> <td>Premises at State building on Temporary Occupation Licence (TOL) or Tenancy Agreement</td> <td style="text-align: center;">3-9 years</td> </tr> <tr> <td>Premises at HDB Void Decks</td> <td style="text-align: center;">2-5 years</td> </tr> </tbody> </table>	Table 2: Recommended Depreciation Policy		Assets	Recommended Depreciation Policy	Freehold Buildings	50 years	Purpose Built Buildings on State Land	30 years	Premises at State building on Temporary Occupation Licence (TOL) or Tenancy Agreement	3-9 years	Premises at HDB Void Decks	2-5 years
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Annual Report														
12)	All charities and IPCs are required to disclose information stipulated by Charities (Annual Report) Regulations (see <u>Annex C</u> for details) in their annual report.	Proposal 8: Charities (Annual Report) Regulations be amended to require all charities and IPCs to disclose additional pertinent information as listed in <u>Annex D</u> .												