hen Children-At-Risk Empowerment (CARE), a youth development organisation, changed its auditors in December 2013, founder and director Lan Teo was met by quotes exceeding SGD20,000 or auditors telling her they were unwilling or too busy to take on the job. “I was told that charities are now seen as being as high risk as construction companies. That’s when I heard many stories of other charities having problems with their auditors,” said Mrs Teo. CARE eventually moved on to an auditor who charges SGD7,000 a year.

CARE is not an exception to the rule. Charities have found it increasingly difficult to engage auditors, and have gone as far as to raise the problem with the office of the Commissioner of Charities.

Auditors have been shying away from taking on audit engagements with charities because they have either been unwilling to pay a fair fee, or because of the perceived difficulties of delivering an audit opinion of charities that meet with the requisite audit standards and regulations.
The problem is not insurmountable; it can be fixed if charities adjust their own expectations of auditors, and also if auditors’ perspectives of the charity sector change, said Gerard Ee, President, ISCA. Quite simply, auditors should not start with the premise that audit engagements for charities and non-profit organisations (NPOs) are inherently no-gos because their financial records are disorganised and charities often do not pay a reasonable fee, he said.

Charities, too, have to meet auditors “more than halfway” by producing financial statements that are, at minimum, “auditable”.

**AUDITORS MORE CAUTIOUS ABOUT CHARITIES**

A confluence of factors have led to the charity sector’s current woes. The first trigger was the 2005 National Kidney Foundation scandal in which public donations were misapplied. Since then, there have been informal arrangements through which auditors volunteered their spare time to prepare both the financial statements and audits of charities and NPOs. But such arrangements are now viewed as presenting conflicts-of-interest situations for the auditors. Today, formal engagements are the norm, and require auditors to charge fair fees.

The requirement for charities to formally engage auditors is not the entire cause of higher audit costs, since the regulatory requirement has not increased uniformly across the swathe of charities. Smaller charities, namely, non-IPC charities1 with a gross income or total expenditure of less than SGD250,000, are not required to be audited and can be reviewed by an independent examiner. Audit exemption thresholds for charities have been raised from SGD250,000 to $500,000. In addition, a simpler and more relevant Charities Accounting Standard has been introduced to meet the needs of charities.

“**MESSY AND DISORGANISED**”

The bigger culprit for auditors’ disinterest in charities is the audit circle’s perception that charities are higher-risk engagements. “When auditors come in (to audit charities), they find it more difficult to audit a charity than a large, manufacturing concern,” said Mr Ee.

What has contributed to charities’ negative label among auditors is their inability to afford to pay qualified bookkeepers or accountants as well as corporate organisations. Furthermore, with many charities managed by people fuelled by passion for their cause, charities may not regard audits as being valuable or integral to their operations.

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1 The Code of Governance for Charities and Institutions of a Public Character (IPC) is available at www.charitycouncil.org.sg/COG_abt.html.
So long as audits are viewed as costs that ought to be minimised, there will exist a gulf of understanding between the charity and its auditor on the issue of fees.

“There’s a disconnect. Charities don’t see that having strong financials make their organisation more effective by helping them make better financial decisions and better strategic plans. It is worse for charities (than commercial entities) because, unlike commercial entities who realise that audits may help with their profitability, charities rely on donations so the question of audits helping with profitability does not feature at all. As long as donors are willing to give them money because of the outcomes they are achieving, the rest is not really important to them. Good financials work against charities – donors ask why they’re asking for money,” explained Mr Ee.

To bridge the gap, auditors should approach charities like any other potential client and make assessments based on risk factors as they would in ordinary potential audit engagements. As CARE’s Mrs Teo pointed out, “It’s true that some charities may be hard to audit as they do not keep proper records. Then again, the same goes for companies. Some do well, some don’t.”

But auditors should not avoid quoting a reasonable fee. “To say ‘no’ because they feel bad charging the charities a fair fee, and at the same time, neither do they want to do work for which they don’t recover half of their cost, it’s a non-starter,” said Mr Ee.

Any deadlock over the issue of fees and engaging willing auditors has to be resolved in light of the trend that audit standards for charities will get more robust. A more stringent Code of Professional Conduct and Ethics (Code) is set to take effect in February 2015 and will be extended to all audits and reviews of Public Interest Entities, large charities and large IPCs to confer a higher degree of public confidence in the financial information of these entities.

Woo E-Sah, Partner, RSM Chio Lim, believes that auditors can help charities manage their scarce resources. “Most charities started
with a good cause in mind. Some went wrong along the way due to a less-than-ideal governance and internal control environment, which encouraged certain individuals to commit fraud,” she said. “As the charities are trying to win back the public trust and confidence, auditors and advisory professionals should also help by being their professional service partners. We have to remind ourselves that not all eggs are bad eggs.”

In Mr Ee’s opinion, an audit is an audit. “The control procedures are exactly the same. In fact, the running of any organisation is exactly the same. What makes an organisation a charity is ultimately its mission. It is very much like a social enterprise. The difference is this – the charity is not sustainable without donations. In the case of a social enterprise, it is an enterprise first, with a social mission,” he said.

**A PARADIGM SHIFT FOR CHARITIES**

Charities can meet auditors halfway by getting their accounts in order. “Charities can help themselves contain audit costs by investing in at least the basic requirements to maintain the accuracy of their financials and keeping the supporting documents organised. Secondly, by doing so, the charities are in a better state to plan strategically and manage their scarce resources, which are the money and facilities they have. If they can do that, then the costs of audit itself will not be prohibitive,” Mr Ee highlighted.

Similarly, charities should accept their auditors’ quotation of fees, since fees are tied to a professional assessment of the difficulty of the engagement.

RSM Chio Lim’s Ms Woo is of the opinion that charities are coming to accept and pay for the higher standards of audits. “I feel that most charities are already embracing the change in the sector. Some have the means to ensure the rules and code are complied with, and public confidence is intact,” she said.

Dalifah Shahril, Administrator, Teater KAMi, a theatre company that seeks to promote cultural awareness among the youth and arts community, shared her view, “I personally think it is good to have an auditor checking on charities’ accounts to make sure that they are ‘clean’, but hope that auditors will be reasonable with the fees.”

**STEPPING UP AMONG THE AUDIT FIRMS**

The auditing industry too, is taking the initiative to improve the situation. Some audit firms have started dedicated practice groups to serve the non-profit sector, including charities.

RSM Chio Lim started a practice
that serves the non-profit sector called RSM Ethos after seeing that there was a need from NPOs “to have professionals who are familiar with their primary activities and the various rules and regulations that encompass them”. RSM Ethos, which Ms Woo heads, serves about 70 NPOs across the spectrum of social services with Audit, Tax, Advisory and Business Support Services. “The focus and risk areas in a financial audit of a non-profit organisation are much different from that of a profit-making company,” she explained. “A good corporate governance environment in a charity and/or IPC has become the utmost requirement in the eyes of the donors and regulatory bodies. We felt it was timely to set up a dedicated NPO practice team to serve this sector. We keep up with the sector’s updates and ensure the staff assigned to the job are well trained in this manner.”

There is also room for the auditing circles to start pro bono services in the area of helping charities straighten out their internal controls and financial accounting procedures. However, there is a possibility that charities which receive recommendations as part of a pro bono initiative may ultimately not implement these measures.

“We can have a pro bono service but at the end of the day, it has to be for a willing party – a charity that is serious about improving its control system because it is committed to growth,” said Mr Ee.

The more budget-conscious charities could consider implementing alternatives like pooling accounting and finance functions in order to maintain the integrity of their financial records while saving on costs. The National Council of Social Service disburses a VWOs-Charities Capability Fund Shared Services Grant to registered charities, IPCs and exempted charities that outsource their payroll, finance and accounting services to a third-party service provider.

Ultimately, perspectives on both sides – the accounting and the charity sectors – can be bridged overnight. “Auditors should treat charities like any other client who walks in: Assess the risk factors, go down to look at the financials, ask how often the bookkeeper comes in to maintain them. After looking at the records, come up with an estimate of the fees,” said Mr Ee. “Charities have to invest in having and maintaining an accounting system with good controls to fulfill their responsibilities to donors, and be in a better position to make strategic financial decisions and plans.”

2 www.charities.gov.sg/Grants/VWOs-Charities-Capabilities-Fund/Pages/Shared-Services-Grant.aspx