

## **Audits of Entities in Specific Industries, Professions or Vocations**

AGS 5 was issued by the Institute of Singapore Chartered Accountants (formerly known as Institute of Certified Public Accountants of Singapore) in May 2006.

AGS 5 was revised in April 2014.

The new and revised auditor reporting standards give rise to conforming amendments in this AGS in July 2015. SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* gives rise to conforming amendments in this SSA in November 2015. These amendments are effective for audits of financial statements for periods ending on or after 15 December 2016.

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**Audits of Entities in Specific  
Industries, Professions or Vocations****Appendix 1  
Audit of Solicitors' Accounts**

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**Introduction**

1. The audit of solicitors' accounts normally has a two-fold purpose, namely –

(a) Accountant's Report

An examination in compliance with section 73 of the Legal Profession Act (Cap. 161) (Act) and the Legal Profession (Accountant's Report) Rules for the purpose of giving an Accountant's Report.

(b) Annual accounts

The preparation and/or examination of the firm's annual accounts for the purpose of reporting to the partners of the practice.

Although the examination in respect of (a) and (b) above would normally be carried out at the same time, there is an important distinction between the two: the examination to be carried out in respect of (a) is statutorily defined and does not permit the reporting accountant any

discretion whereas the nature of the examination to be carried out in respect of (b) is a matter for agreement between the firm and the auditor and should be set out in the engagement letter.

Note: Solicitors incorporated as limited liability companies (LLCs) will have to comply with Financial Reporting Standards in Singapore (FRSs). Compliance with FRSs is also encouraged for solicitors formed as sole proprietors or partnerships.

2. This Statement is intended as a guide to the audit of solicitors' accounts. Part 1 deals with the accountant's examination leading to the Accountant's Report, Part 2 highlights certain practical considerations in connection with the annual accounts of solicitors and Part 3 provides an audit programme for the examination leading to the Accountant's Report.

## **Part 1**

### **Accountant's Report**

#### *The Rules*

3. Solicitors handle large sums of client's money in the course of their work (conveyancing, administration of estates etc) or whilst acting as stakeholders or agents in receiving, holding or paying out sums for their clients or third parties. It is therefore imperative that client's money (as defined in rule 2 of the Legal Profession (Solicitors' Accounts) Rules) is not mixed with the solicitor's own money. For this reason, the custody of client's money is regulated by rules made by the Council of the Law Society of Singapore (Council) under sections 72 and 73 of the Act. There are four sets of such rules, namely –
  - (a) Legal Profession (Solicitors' Accounts) Rules (SAR)
  - (b) Legal Profession (Accountant's Report) Rules (ARR)
  - (c) Legal Profession (Solicitors' Trust Accounts) Rules (STAR)
  - (d) Legal Profession (Deposit Interest) Rules (DIR)

This document refers to the above Rules in abbreviated form followed by paragraph number when applicable, for example, SAR 11 refers to paragraph 11 of the Legal Profession (Solicitors' Accounts) Rules.

4. Every solicitor is required to submit, with an application for a practising certificate, an Accountant's Report in the form prescribed in the Schedule of the ARR. Disciplinary proceedings may be taken against any solicitor who fails to comply with the SAR and ARR. The Council has powers to intervene into the client account of the law practice primarily for the purpose of taking control of the bank account(s) of a law practice where the Council is satisfied that a solicitor has failed to comply with the SAR.

Note: Under Part II of the First Schedule of the Legal Profession Act, the power exercisable on intervention following a breach of the SAR allows the Council to take control of all sums of money held by or on behalf of the solicitor or his firm in connection with his practice or with any trust of which he is or formerly was a trustee (see para 10(2) of Part II First Schedule of the Legal Profession Act).

- 4A. The Council has the power in accordance with ARR 3(2) to disqualify an accountant where the Public Accountants Oversight Committee has made a disciplinary order against a public accountant or where the Council is satisfied the solicitor has not complied with the SAR in respect of matters not specified in an accountant's report and the accountant who gave the report was negligent in giving the report.

#### *Definitions*

5. In this Statement, unless the contrary intention appears, the terms have meanings as follows:

“accounting corporation”, “accounting firm” and “accounting LLP” have the same meanings as in the Accountants Act (Cap. 2);

“approved finance company” means any finance company registered under the Finance Companies Act (Cap. 108) which is approved by the Minister to accept either or both of the following:

- (a) deposits of client’s money for the purposes of these Rules;
- (b) deposits of conveyancing money for the purposes of these Rules and the Conveyancing Rules;

“bank” has the same meaning as in the Banking Act (Cap. 19);

“bank account” means account held at a bank or approved financial institution;

“bank pass book” and “bank statement” mean, respectively, a pass book and a statement issued by a bank in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such bank, and includes a pass book and a statement issued by an approved finance company in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such finance company;

“book-keeper” in the SAR refers to an ‘approved book-keeper’, and is a person who meets the criteria set by the Law Society of Singapore to write up the book of accounts of a law practice;

"client" means any person on whose account a solicitor holds or receives client's money;

"client account" means –

- (a) a current or deposit account in the name of the solicitor at a bank
- (b) a deposit account maintained in the name of a solicitor with an approved finance company,

in the title of which account the word "client" appears;

"client's money" means money held or received by a solicitor on account of a person for whom he is acting (in relation to the holding or receipt of such money) either as a solicitor, or in connection with his practice as a solicitor, an agent, bailee or a stakeholder or in any other capacity, other than –

- (a) money held or received on account of the trustees of a trust of which the solicitor is solicitor-trustee;
- (b) money to which the only person entitled is the solicitor himself or, in the case of a firm of solicitors, one or more of the partners in the firm; or
- (c) conveyancing money or anticipatory conveyancing money;

“conveyance” has the same meaning as in section 2 of the Conveyancing and Law of Property Act (Cap. 61);

“conveyancing money” has the same meaning as in rule 2(2) of the Conveyancing and Law of Property (Conveyancing) Rules 2011;

“land” has the same meaning as in rule 2(2) of the Conveyancing and Law of Property (Conveyancing) Rules 2011;

"Public accountant" has the same meaning as in the Accountants Act (Cap. 2);

"Public Accountants Oversight Committee" means the Public Accountants Oversight Committee appointed under section 4 of the Accountants Act (Cap. 2);

"signatory", in relation to a client account, means a solicitor who is authorised to sign a cheque or other instruction effecting a withdrawal from the client account;

"Solicitor" means an advocate and solicitor of the Supreme Court and includes a Singapore law practice;

"solicitor-trustee" means a solicitor who is the sole trustee or co-trustee only with one or more of his partners or employees;

"Trust account" has the meaning assigned to it by the Legal Profession (Solicitors' Trust Account) Rules (R9); and

"trust money" means money held or received by a solicitor which is not client's money or conveyancing money and which is subject to a trust of which the solicitor is a trustee whether or not he is the solicitor-trustee of such trust.

### *Reporting Requirements*

6. The reporting requirements are set out in section 73 of the Act and in the ARR. In the Accountant's Report (to be made in a prescribed format) the accountant is required to state –
  - (a) that the accountant has examined to the extent required by the ARR the books, accounts and documents of the solicitor's practice; and
  - (b) whether or not the accountant is satisfied from the examination that the solicitor has complied with the SAR (if not, the matters in respect of which the accountant is not satisfied).

In addition to the above, the Accountant's Report makes reference to certain other matters (the form of the Accountant's Report is found in The Schedule to the ARR - see Appendix B).

7. In the Accountant's Report, the accountant is not specifically required to report on compliance with the STAR nor the DIR. However, trust money may be paid into a client account and therefore becomes subject to the ARR. Moreover, the SAR requires the recording of all transactions of the practice. Thus, the accountant would need to have regard to the STAR and the DIR in his examination for the purposes of the Accountant's Report.

### *Client's Money*

8. Client's money belongs to the individual clients and can only be used as directed by them. The use of one client's money to settle a liability of another client can be criminal breach of trust.
9. A solicitor cannot conduct personal or office transactions through a client account. Neither can the solicitor pay into a client account personal monies in order to finance clients. (The SAR does, however, allow the solicitor to pay personal monies into a client account in order to keep the account current.)
10. In addition, there is the following 'musts' with regard to client's money:
  - (a) Client's money must without delay be paid into a separate bank account or accounts. The bank account may be a general account holding money belonging to more than one client or separate accounts for individual clients.

- (b) The word 'client' must appear in the title of the account.
- (c) An individual client's account must not be overdrawn.
- (d) Withdrawals or instructions for withdrawal from a bank account which is or forms part of a client account exceeding \$30,000 from the 15 July 2007 must be under the signature of 2 solicitors who hold a current practising certificate that is not subject to any condition prohibiting them from being a signatory to client account cheques or instructions and they have been in practice as a solicitor in Singapore for no less than 3 years in aggregate or employed as a legal service officer for no less than 3 years in aggregate.
- (e) Cheques (or other instructions effecting the withdrawals) exceeding \$5,000 but not exceeding \$30,000 from the 15 July 2007 can be drawn from the client account signed by a qualified sole solicitor, only if an independent book-keeper (who had attended the Council's mandatory book-keepers course within a year of his engagement) approved by the Council has been engaged by the law practice.
- (f) No cash cheque or bearer cheque can be drawn from the 15 July 2007 from a client account except with the leave of a Judge of the High Court.

No withdrawal of moneys from the client account from the 15 May 2007 by means of an automated teller machine, telephone banking service or on-line banking service.

- 10A. To check that the solicitor is in compliance with rule 8(4) of the SAR, ie. no money shall be drawn from a client account by a cash or bearer cheque except with the leave of a Judge of the High Court on or after 15 July 2007; an accountant must satisfy himself that an order of Court has been obtained from the required Court.
- 10B. To check that a solicitor is in compliance with rule 8(5) & (6) of the SAR, i.e. no sum exceeding \$30,000 from the 15 July 2007 is drawn from the client account except upon a cheque or other instruction effecting the withdrawal signed by 2 qualified solicitors under the SAR, an accountant must check the names of signatories to the client account.
- 10C. To check that the solicitor is in compliance with rule 11A (1) of the SAR, ie. a solicitor has only engaged an independent book-keeper from the 15 July 2007 approved by the Council to keep his books and accounts properly written-up and reconciled; the accountant must satisfy himself by obtaining a copy of the Law Society of Singapore's annual letter of approval of engagement of the book keeper.
- 11. Notwithstanding paragraph 10 above, specific instructions of the client (preferably in writing and acknowledged by the solicitor in writing) can in certain situations take precedence over the Rules in relation to money received or paid on the client's behalf. For example, a client may instruct in writing that the client's money be withheld from a client account or that the money held on the client's behalf be paid out in any manner on the client's authority. However, notwithstanding any instructions of the client, no money can be drawn from the client account by cash cheque or bearer cheque except with the leave of a Judge of the High Court. Generally, unless specifically provided for, it is the Council that has the power to grant a waiver of the provisions of the SAR. In this regard, it should be noted that this does not apply to conveyancing money which is dealt with separately.

### *Accounting Records*

- 12. SAR 11 requires a solicitor to keep the following accounting records:
  - (a) cash book(s)
  - (b) clients' ledgers
  - (c) journal and record of transfers between clients' ledgers

- (d) record of bills of cost.

The accounting records must be kept in such a way that client's money is clearly distinguished from office money or money belonging to a solicitor and trust money held in a trust account. The necessary accounting records must at all times be properly written up to show all his dealings with –

- (a) client's money received, held or paid by him through a client account;
  - (b) conveyancing money received, held or paid by him through a conveyancing account or conveyancing (CPF) account;
  - (c) any other money dealt with by him through a client account;
  - (d) to show separately in respect of each client all money of the categories specified in (a) to (c) above which is received, held or paid by him on account of that client;
  - (e) to distinguish all money of the categories mentioned in (d) above received, held or paid by him, from any other money received, held or paid by him; and
  - (f) a record of all bills of costs (distinguishing between profit costs and disbursements) and of all written intimations of costs contained in a bills delivered book or a file of copies thereof.
13. The accounting system may be manual, mechanical or computerised and the accounting records must be retained for at least six years.
14. A solicitor must ensure that the clients' cash book is reconciled with client bank statements every month and retain the reconciliation statements.

#### *Solicitor's Costs*

15. Money received by a solicitor for an agreed fee or on account of an agreed fee for business undertaken or to be undertaken must be paid into office account.
16. Money paid to a solicitor on account of costs incurred must generally be paid into client account and remain there until a bill of costs or written intimation of the amount of the costs has been delivered to the client for payment. Withdrawals for costs should be for the specific amount related to the bill or written intimation of costs delivered to the client, and the client must be notified that money held for him will be applied towards or in satisfaction of such costs. Therefore fees paid towards costs and disbursements or fees paid as deposits or retainers must not be paid into the office account. In addition, the Council has passed a Practice Direction requiring a lapse of 2 working days after delivering the bill to the client and notification that the bill amount is to be deducted from the client account money, before the money may be deducted from the client account or transferred to the office account. However, funds held on account of disbursements can be transferred to office account once the disbursements have been made.
17. Money due to a solicitor (for or towards the solicitor's costs, repayment of a debt, reimbursement of money expended on behalf of the client) must be drawn either by a cheque in favour of the solicitor or a transfer to a bank account in the solicitor's name, that is, a solicitor's own debts may not be paid out of money due to the solicitor in a client's bank account by means of a cheque or cheques drawn in favour of a third party.



### *Trust Money*

18. The SAR definition of client's money specifically excludes money held by a solicitor in the solicitor's capacity as a trustee. Trust money must be paid either into a trust account, in which case it is subject to the STAR, or into a client account, in which case it is subject to the ARR. The STAR is similar to the SAR except that an Accountant's Report is not required on money paid into a trust account. Trust money received, held or paid by the solicitor comes under the accountant's examination only to the extent that they impinge on the SAR or the ARR.

### *Interest on Client's Money*

19. Section 129 of the Act permits a solicitor to retain interest on monies deposited at a bank in a general client account, unless there is any arrangement in writing made between a solicitor and his client as to the application of the client's money or interest thereon.
20. The DIR provides that, where the amount of client's money at the time of receipt exceeds \$5,000 and the instructions to the solicitor at the time of receipt are such that the solicitor knows that it will not fall below that within the next four months, the solicitor must either –
- (a) deposit the money in a bank fixed deposit account repayable on demand and account to the client for any interest;
  - (b) or pay to the client an equivalent sum if the money had been deposited as in (a).

Under rule 4 of the DIR, it is provided that nothing in DIR affects any contrary arrangement in writing with the solicitor. However it is to be noted that the DIR does not apply to conveyancing money or money that is received on account of a trust of which the solicitor is solicitor-trustee.

21. It should be noted that under general law a solicitor who is a trustee cannot obtain any personal benefit from the trust without express authority; therefore trust money should not be included in an interest-bearing general clients' account.
22. As with the STAR, an Accountant's Report is not required on compliance with the DIR. Nevertheless, clients' accounts should be scrutinised to establish whether it appears that interest should be paid over. If material amounts appear to be payable, this should be drawn to the solicitor's attention.

### *Accountant's Report*

23. Under the ARR, an accountant is qualified to give an Accountant's Report if the accountant –
- (a) is practising in Singapore and is authorised to practise as a public accountant under the Accountants Act (Cap. 2);
  - (b) has neither been at any time during the accounting period, nor subsequently, before giving the report, become -
    - (i) a partner or employee of the solicitor or of any partner of his; or
    - (ii) a partner, director, a member or an employee of a limited liability law partnership, a law corporation, a Joint Law Venture, a constituent foreign law practice (of a Joint Law Venture), a Qualifying Foreign Law Practice or a licensed foreign law practice in which the solicitor is a partner or director; and
  - (c) is not subject to notice of disqualification under rule 3(2) of the ARR or under rule 11A (4) of the SAR.
24. The Accountant's Report, in the form prescribed in the ARR, must be delivered by the solicitor to the Law Society of Singapore once during every practice year and not more than six

months after the end of the accounting period specified in the report. The accounting period should begin at the expiry of the last preceding accounting period for which a report has been delivered and should cover a period of not less than twelve months. A report must be given in respect of each partner or director in practice.

25. The extent and nature of the accountant's examination are laid down in ARR 4. The detailed work that must be performed by the accountant includes:
- (a) Obtain from the solicitor particulars of all bank accounts or approved finance company accounts (excluding trust accounts) maintained or operated during the accounting period.
  - (b) Examine the book-keeping system in every office of the solicitor to enable verification that the system complies with the requirements of SAR 11 (see paragraphs 12 to 17 above).
  - (c) Test check clients' ledgers postings and costs from records of receipts and payments of client's money and any other money dealt with through a client account and conveyancing money dealt with through a conveyancing account or conveyancing (CPF) account.
  - (d) Compare a sample of lodgements into and payments from (i) a client account (as shown in bank statements) with the solicitor's records of receipts and payments of client's money and (ii) a conveyancing (CPF) account (as shown in bank statements) with the solicitor's records of receipts and payments of conveyancing money dealt with through the conveyancing account or conveyancing (CPF) account.
  - (e) Enquire into and test check the system of recording costs and of making transfers in respect of costs from each client account, conveyancing account and conveyancing (CPF) account.
  - (f) Make a test examination of such documents as the accountant shall request the solicitor to produce to him with the object of ascertaining and confirming (i) that the financial transactions (including those giving rise to transfers from one ledger account to another) evidenced by such documents, are in accordance with the SAR and (ii) that the entries in clients' ledger accounts reflect those transactions in a manner complying with the SAR.
  - (g) Extract (or check extractions of) clients' ledger balances for at least two dates (one of which may be the last day of the accounting period), and at each such date (i) compare the total as shown by such ledger accounts of the liabilities to the clients (including those for whom trust money is held in a client account, or conveyancing money is held in a conveyancing account or conveyancing (CPF) account), with the cash book balances on every client account, conveyancing account, conveyancing (CPF) account, client's fixed deposit account with a bank or approved finance company (including such a fixed deposit account in which trust money is held) and other fixed deposit account; and (ii) reconcile such cash book balances and fixed deposit with confirmations obtained by the accountant direct from the bank or approved finance company.
  - (h) Ascertain that monthly bank reconciliations of clients' accounts have been kept in accordance with SAR 11(4).
  - (i) Test examine clients' ledgers to ascertain whether the payments made from any client account, conveyancing account or conveyancing (CPF) account in respect of any client are in excess of the money held on behalf of that client in that account.
  - (j) Peruse such office ledger and cash accounts and bank statements as the solicitor maintains to ascertain whether (i) any client's money has not been paid into a client account; or (ii) any conveyancing money has not been paid into a conveyancing

account or, if paid by the Central Provident Fund Board, into a conveyancing (CPF) account.

- (k) Obtain such information and explanations as the accountant may require arising from the above.

26. In performing the above, the ARR does not require the accountant –

- (a) to extend the accountant's enquiries beyond the information contained in the relevant documents relating to any client's matter produced supplemented by such information and explanations as the accountant may obtain from the solicitor, that is, the accountant is not required to search the premises for files not volunteered to the accountant; or
- (b) to enquire into the stocks, shares and other securities or documents of title held by the solicitor on behalf of clients; or
- (c) to consider whether the accounting records of the solicitor have been properly written up in accordance with SAR 11 at any time other than the time the examination takes place.

27. The important features of the Report format (see Appendix B) are highlighted below:

- (a) '... I have examined to the extent required by Rule 4 ...'  
The minimum work is prescribed and must be carried out; there is therefore little room for the use of professional judgment in this respect.
- (b) '... the solicitor has complied with the provisions of the Legal Profession (Solicitors' Accounts) Rules, except ...'  
If there are breaches, all four of the following conditions must be satisfied before item 6(a) applies:
  - (i) the breach must be trivial (the only condition that depends on the accountant's opinion);
  - (ii) the breach must be due to clerical errors or mistakes in book-keeping;
  - (iii) the breach must be rectified on discovery (it must be checked that it was rectified);
  - (iv) the breach must not have resulted in any loss to a client (this must be verified).
- (c) Item 6(b) applies where despite extending the examination in accordance with rule 4(3) the accountant needs to qualify the Report on the basis of uncertainty, for example, where the solicitor claims client privilege or where files have been lost or mislaid. Details of such matters must be set out in the First Section.
- (d) Item 6(c) applies where breaches are not trivial, etc. Details of such matters must be set out in the Second Section.
- (e) Item 7 relates to the work performed on clients' ledgers referred to in paragraph (25(g)) above. The two dates selected must be stated. If there is a discrepancy in the figures, however small, it cannot be stated that the figures were in agreement. In item 7(a) (ii) 'liabilities to clients as shown by clients' ledger accounts' means client creditor balances only. The only netting off permitted is that required to arrive at the position of each client in cases where the accounts are sub-divided into different matters, and any client debit balances must be excluded. The cash figure with which the total of clients' ledger balances is being compared is the total of the reconciled balances of all client bank accounts.

## Part 2

### Annual Accounts

28. In addition to the Accountant's Report, the accountant may be asked to prepare and/or examine the annual reports of the practice for the purpose of reporting to the partners. The scope and nature of the work to be carried out are determined by the terms of the engagement. For this reason a standard audit programme would not be appropriate. The following paragraphs deal with some practical considerations.
29. Before undertaking the engagement, it is important that there be agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued. These should be set out in the engagement letter.
30. In the absence of specific instructions to the contrary from the client, an examination similar to that required for a statutory audit would normally be performed and the accountant should comply with the requirements of the Singapore Standards on Auditing (SSAs). This would include an examination and testing of the systems and an examination of the items making up the profit and loss statement and the balance sheet.
31. At the planning stage the accountant should have a clear idea of whether the report is to be in the form of a limited report or a full audit report.
32. Where a full audit report is requested by the client the accountant's report should take the form as recommended in SSA 700 (Revised)<sup>1</sup>. Where a limited report is requested, the accountant should comply with the requirements of Singapore Standards on Review Engagements as appropriate.
33. Where the accountant is instructed to prepare accounts but not to audit them, the report should take the form as recommended in the Singapore Standard on Related Services (SSRS) 4410<sup>2</sup>.

As far as practicable in the absence of an audit, the accountant should ensure that the accounts which are prepared conform to FRSs. Where they do not, this should be made clear in the accounts. Such a report should not be issued by an accountant when the accountant believes that the accounts, although not audited, give a misleading view. The accounts should be approved by each partner of the practice before the compilation report is signed. A suitable declaration to be made by the partners on the face of a copy of the accounts retained by the accountant may be as follows:

I approve these accounts and confirm that I have made available all relevant records and information for their preparation.

34. In practice there are at least three prevailing accounting bases for income recognition in annual accounts prepared for taxation purposes, namely, the 'accrual basis', 'bills rendered basis' and the 'cash basis'. The accountant should also refer to the SSAs to obtain an understanding on the fair presentation framework and compliance framework and assess if the appropriate financial reporting framework is used.

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<sup>1</sup> SSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>2</sup> SSRS 4410, *Compilation Engagements*

## Part 3

### Example Audit Programme for the Statutory Accountant's Report

#### *Planning*

##### 35.1 *New assignment*

- (a) Obtain, and place on the permanent file, a copy of the Legal Profession (Solicitors' Accounts) Rules, which must be read and understood before commencing the work.
- (b) Obtain a list of all offices from which the firm conducts its practice, and -
  - (i) note the names of the resident partners in each office;
  - (ii) obtain specimen signatures of all partners in the practice and employees authorised to sign cheques on client account and office account; and
  - (iii) note the names of the principal office staff responsible for maintaining the accounting records and their duties.

##### 35.2 *Continuing assignment*

- (a) Update the permanent file for changes in the Rules etc. since the last Report and make any necessary changes to the programme of work. The Rules should be read and understood before commencing the work.
- (b) Update the permanent file for –
  - (i) offices opened or closed since the last Report;
  - (ii) any changes in the partnership (including dates of admission of new partners and dates of retirements); and
  - (iii) specimen signatures of new partners and any other person entitled to sign cheques drawn on the client bank accounts.
- (c) Update the permanent file for any changes in the accounting system (including procedure for opening the post) and of the personnel responsible thereof. Consider the effect of such changes in relation to the programme of work.

##### 35.3 Select two dates (one of which may be the solicitor's year end) for carrying out the work laid down below. The same dates should be used for each of these tests:

- (a) reconciliations of client accounts;
- (b) extraction of client ledger account balances and agreement with the reconciled client account;
- (c) reconciliations of office bank accounts; and
- (d) extraction of office ledger account balances and agreement with control account.

*Note:* For the purposes of the ARR, and as to provide a test appropriate to the intention underlying the Rules, the two dates chosen (one of which may be the solicitor's year end) should be sufficiently separate from each other and from the last date shown on the report relating to the previous accounting period. The decision on whether a comparison on two dates is adequate must depend on the results of such comparisons and the extent and nature of the errors discovered.

35.4 Clear any points brought forward from the previous year.

#### *Evaluation and Review of Internal Control*

36.1 Ascertain and record, or update the existing record of, the system of accounting for client's money.

36.2 Ascertain the system for recording costs and making transfers in respect of such costs from client account to office account.

36.3 Carry walk-through checks to confirm the operation of the system as recorded.

36.4 Evaluate the effectiveness of the system, with particular reference to the following questions:

- (a) Is there an appropriate ledger account for each client?
- (b) Do such ledger accounts show separately from other information particulars of all clients' money received, held or paid on behalf of each client?
- (c) Are transactions relating to client's money and any other money dealt with through a client account recorded in the books so as to distinguish them from other money received, held or paid on behalf of the firm?
- (d) Are there adequate controls to ensure that commissions received and receivable are correctly treated?
- (e) Is there control over withdrawals from client account in respect of costs?
- (f) Are clients' bank accounts reconciled at least once in each one-month period?
- (g) Are all receipts banked without delay?
- (h) Are the accounting records written up at least daily?
- (i) Are the accounting records retained for a minimum of six years?
- (j) Are the accounting records which are older than six years, disposed of or destroyed appropriately?
- (k) Are there controls to ensure those cheque withdrawals (or other instructions effecting the withdrawals):
  - (i) more than \$30,000 from 15 July 2007 are always signed by 2 solicitors; and
  - (ii) more than \$5,000 but not exceeding \$30,000 from 15 July 2007 are always signed by 2 solicitors unless a book-keeper has been engaged?
- (l) Is there a record of client's money received which is dealt with other than by being paid into a bank account?
- (m) Are there procedures for signing cheques during the solicitor's absence? (This is particularly important in the case of a sole practitioner, who should avoid signing blank cheques in advance by, for example, entering into a reciprocal cheque signing arrangement with another local practitioner).

36.5 *Differences between manual and computerised systems*

- (a) The controls referred to in (a) to (m) above apply irrespective of whether the system is manual or computerised. The list highlights important controls relevant to the SAR but is not a blueprint for a complete system.

- (b) The following control questions relate to a manual system, but apply *mutatis mutandis* to a computerised system.
  - (i) Is the opening of new ledger accounts properly authorised?
  - (ii) Is the transfer of closed accounts from the current ledger to a dead ledger properly controlled?
  - (iii) Are there adequate controls to ensure that ledger accounts are not deleted without proper authority?
- (c) These controls would be regarded as 'general' or 'integrity' controls in any system, but there are other controls unique to a computerised system to which the reporting accountant should attend. For example:
  - (i) Is a copy of the account scanned or printed whenever an account is deleted from the computer file?
  - (ii) Is there effective security against unauthorised access to the system? (For example, consider how many people may know passwords to sensitive areas of the system.)
  - (iii) Are there satisfactory controls over program security? (For example, consider who is able to amend programs and how such activities are monitored.)
  - (iv) Are there satisfactory arrangements for creating back up files and archiving old records?
  - (v) Are back up files stored in a safe location away from the current records?
  - (vi) Are the arrangements for archiving (or retention of hard copies) adequate to satisfy the SAR requirement to keep records for six years?

### 36.6 *Opening the mail*

- (a) Is the opening of the mail supervised by a responsible official?
- (b) Is the opening of the mail carried out by persons independent of cashier/accounting functions?
- (c) Is there rotation of duties?
- (d) Are cheques received immediately crossed in favour of the firm?
- (e) Is a record of all money received by mail made immediately, in order to show the disposition of the receipts? Is this subsequently reconciled with the day's postings?

### 36.7 Determine the sample sizes for all tests specified in this programme having regard to -

- (a) the system of internal control and accounting for the time being in force;
- (b) any changes in the system since the last Accountant's Report.

If from the results of such tests there is evidence to suggest that the SAR has not been complied with, tests should be extended as necessary in order to determine whether the Accountant's Report should be completed with or without qualification. Additional substantive tests should be set, when breaches of the rules are disclosed, in order to assess the extent of the breaches.

It may be appropriate to be discriminating in the selection of samples. For example, stratifying the population enables a greater emphasis to be put on larger value items; the selection of the sample from areas with limited external controls (for example, deceased clients' estates or trust accounts with little movement in the year) brings to attention sources of potential error or defalcation. Similarly, careful enquiries should be made into any credit balances on the office ledger or debit balances on client ledger, as these may well lead to the discovery of errors.

It is important to recognise that no breach of the ARR may be disregarded on the grounds of immateriality, but it will be necessary to determine whether any breach is of sufficient importance to require special reference under item 6 (c) of the Accountant's Report or whether it can be classified a 'trivial etc. breach' under item 6 (a).

### *Bank Accounts*

- 37.1. Obtain from the firm, in writing, a list of all bank accounts in the name of the firm including deposit accounts and short-term loan accounts kept at any time during the period covered by the Report.
- 37.2. Compare the list of bank accounts with that obtained for the previous year and enquire into accounts omitted therefrom.

### *Bank Reconciliations*

- 38.1 Obtain certificates direct from the banks concerned of balances held on all client accounts at each of the two dates selected for agreement of the client ledger.
- 38.2 Verify from the certificates received, and from the bank statements, that all bank current and deposit accounts in the name of the firm which are used to hold client's money have the word 'client' in their title.

If it is a conveyancing account it must have the word "Conveyancing" or the abbreviation "CVY" in the title. If it is a conveyancing (CPF) account, it must have the words "Conveyancing (CPF)" or the abbreviation "CVY-CPF" in the title.

*Note:* Generally, bank accounts which are not client accounts will be in the name of the firm and have some additional designation such as 'office account', 'salaries account', etc. in their title. Those accounts which do not have an explanatory title should be investigated to determine whether they are, in fact, client accounts from which the word 'client' has been omitted. A trust account should be in the name of the trustees (not in the name of the firm) and the mandate should restrict signatures to the trustees (not anyone authorised to sign the client account).

- 38.3 Verify that all client bank accounts have been reconciled at least once in each one-month period.
- 38.4 Verify that reconciliations have been kept for record purposes.
- 38.5 Verify that all corrections shown by the reconciliations to be necessary have been notified to the bank or corrected in the books.
- 38.6 In respect of the two selected dates, check or prepare reconciliations of the clients' cash book with bank statements and –
  - (a) recast bank reconciliations;
  - (b) trace entries in the cash book for a period ending on each of the two dates to the bank statements;
  - (c) trace all outstanding lodgements and unpaid cheques on the two dates to the reconciliation statements and verify that they were cleared in the bank statements of



the next succeeding period and that outstanding lodgements were cleared without delay (or note any delays and obtain explanations);

- (d) ensure that old uncleared cheques are dealt with systematically;
- (e) obtain and note explanations for all contra items appearing in the bank statements and in the cash book in the period checked;
- (f) obtain and note explanations for all items appearing in the cash book but not in the bank statements and vice versa;
- (g) check additions of the cash book for the periods chosen above;
- (h) agree balances with those on the reconciliation statements; and
- (i) agree bank balances as at the selected dates with the certificates obtained from the bank.

38.7 Make a random selection of lodgements and payments shown in the bank statements and trace the corresponding entries in the clients' cash book.

38.8 Generally scrutinise the bank statements and obtain and note explanations for all contra items.

#### *Cash Book - Client Account and Conveyancing Account*

*Note 1:* Subject to SAR 9, every solicitor who holds or receives client's money (or money which under SAR 4 the solicitor is permitted and elects to pay into a client account) shall without delay pay such money into a client account.

*Note 2:* Where trust money has been paid into a client account, the reporting accountant should ensure that any withdrawal of this money from the account is authorised by all the trustees, if there are more than one, or by the trustee, in the case of a sole trustee - that is, not by any other signatory on the client account.

#### 39.1 *Receipts by mail*

- (a) Where a record (for example, cash diary) is kept of money received by mail -
  - (i) trace entries in the relevant cash books for a number of days, seeing that dates and other particulars correspond; and
  - (ii) verify with correspondence that all money received has been correctly dealt with in the books.
- (b) Make a surprise attendance to observe the opening of the mail to confirm that the procedures in operation are in accordance with the laid down system.

#### 39.2 *Receipts*

- (a) Confirm that, where client's money is dealt with otherwise than by being paid into a client account, a record of such money received and its disposal is nevertheless made in the cash book or transfer journal.  
*Note:* The movement of client's money must be recorded even though it is not passed through a bank account.
- (b) Make a random selection of items from the cash book and –
  - (i) check them in detail with the record of moneys received by mail and the original bank paying-in slips and trace totals in the bank statements; check the casts of

the copy bank paying-in slips; verify the reasons for any alterations on the bank paying-in slips: ensure that all money received is banked promptly.

- (ii) examine clients' files and verify that the entries in the books properly reflect the transaction in accordance with the clients' expressed intentions and in a manner complying with the SAR.
- (iii) check postings to the client ledger.

### 39.3 *Payments*

Make a random selection of items from the cash book and –

- (a) examine returned (paid) cheques - noting the payee, the nature of any endorsements and that the cheque is signed by an authorised signatory;
- (b) examine clients' files and verify that the entries in the books properly reflect the transactions in accordance with the clients' wishes and in a manner complying with the SAR;
- (c) if the payment is to office account, ensure that the amount is rightfully payable to the solicitor;
- (d) trace entries in bank statements; and
- (e) check postings to the client ledger.

### 39.4 *Inter-bank transfers*

Examine the client and office account cash books generally and –

- (a) make a random selection of transfers to and from deposit accounts and other transfers on client account and trace corresponding entries in the books and see that the dates correspond;
- (b) make a random selection of transfers from office account to clients account and –
  - (i) enquire into the reasons and note the explanations received;
  - (ii) confirm with documentary evidence, if any; and
  - (iii) confirm that such transfers are not attempts to cover up previous breaches of the Rules;
- (c) make a random selection of transfers from client account to office account and verify they are for specific sums which the solicitor is entitled to withdraw under SAR 7.

### 39.5 *Separate designated accounts*

- (a) Where a client's money has been deposited in a separate designated account, verify that -
  - (i) an appropriate client account has been opened in the client ledger;
  - (ii) the ledger account indicates where the money has been deposited; and
  - (iii) the description of the bank deposit account includes the word 'client'

*Note:* When client's money is transferred from the general client account to a separated designated account, it is important that the solicitor's books fully record the fact. Errors

often occur because the client's account (in the client ledger) is debited and the client bank account is credited with the amount so transferred and there are no corresponding entries made in the books in respect of the sum placed on deposit. This gives rise to a breach of the Rules because the client ledger no longer reflects the liability to the client, which will not be apparent from the agreement of the client ledger balances with the bank, if the separate designated account is overlooked.

- (b) Verify that –
  - (i) interest received in respect of separate designated accounts has been credited to the client accounts concerned; and
  - (ii) such interest, being client's money, has been credited to the client account and entered in the clients' cash book immediately notification thereof has been received from the bank.

*Note:* Interest received on client general deposit account is not client's money and should be credited to office account.

### *Cash Book - Office Account*

- 40.1 Obtain certificates direct from the banks concerned of balances held on all office bank accounts at each of the two dates selected for agreement of the client ledger.
- 40.2 In respect of the two selected dates, check or prepare reconciliations of the office cash book with bank statements and –
  - (a) recast bank reconciliations;
  - (b) trace entries in the cash book for a period ending on each of the two dates to the bank statements;
  - (c) trace all outstanding lodgements and unpaid cheques on the two dates to the reconciliation statements and verify that they were cleared in the bank statements of the next succeeding period and that outstanding lodgements were cleared without delay (or note any delays and obtain explanations);
  - (d) ensure that old uncleared cheques are dealt with systematically;
  - (e) obtain and note explanations for all contra items appearing in the bank statements and in the cash book in the period checked;
  - (f) obtain and note explanations for all items appearing in the cash book but not in the bank statements and vice versa;
  - (g) check additions of the cash book for the periods chosen above;
  - (h) agree balances with those on the reconciliation statements; and
  - (i) agree bank balances as at the selected dates with the certificates obtained from the bank.
- 40.3 Scrutinise office cash book receipts for the year and –
  - (a) list large or unusual items; and
  - (b) verify with supporting documents that such items do not represent client's money which should have been paid into a client account.

- 40.4 Scrutinise office cash book payments for the year and –
- (a) list all large or unusual items;
  - (b) vouch such items with supporting documents; and
  - (c) obtain and note explanations for any payments (or transfers) into client account and confirm that such payments (or transfers) are not attempts to remedy a previous breach of the Rules in respect of client's money.
- 40.5 Scrutinise the office account bank statements for the year and -
- (a) list all large or unusual items;
  - (b) trace the entries for such items in the cash book; and
  - (c) vouch such items with supporting documents in order to ensure that they do not represent money that should have been paid into client account.
- 40.6 Scrutinise the office ledger for the year and –
- (a) list all large or unusual items; and
  - (b) vouch such items with supporting documents in order to ensure that they do not represent money that should have been paid into client account.
- 40.7 When client's money has inadvertently been paid into office account –
- (a) obtain and note explanations thereof;
  - (b) confirm that the appropriate adjustments have been subsequently made to rectify the errors; and
  - (c) ascertain whether or not clients have suffered any loss due to such errors (for example, loss of interest income when the error has caused delay in placing money on deposit).

### *Client Ledger*

- 41.1 Enquire whether the client ledger balances have been extracted at regular intervals during the year and the total agreed with balances held on client account. If so, note dates on which this was done and whether agreement was effected. Obtain or extract a list of all balances on client account and office account at each selected date.
- 41.2 Check (if extracted by the solicitor) balances on client account at the two selected dates.
- 41.3 Agree the total of the balances on client account at the two selected dates with the total cash held as shown in the client account cash books.
- 41.4 Obtain and note explanations for any debit balances.
- Note:* Debit balances on client ledger accounts imply a breach of the Rules and their existence should involve a qualification in the Accountant's Report. Where more than one client ledger account is kept for a particular client, the overall position for that client should be considered in deciding whether or not that client is in debit. Note, however, if the solicitor is holding a client's money for a special purpose (for example, money held on specific instructions of the client or in respect of an undertaking given on behalf of a client), it may not be possible to set off against it an account which is in debit.
- 41.5 Scrutinise the list of balances on the client ledger to confirm that none are in the name of a partner (or the sole practitioner).

- 41.6 Make a random selection of client ledger accounts (including accounts which were closed during the year) and having obtained the clients' files in respect of the accounts selected –
- (a) verify that the entries in the ledger accounts properly reflect the clients' instructions with regard to client's money, that the timing of the entries is consistent with the information in the files and that they are in accordance with the SAR;
  - (b) verify that the financial transactions (including those giving rise to transfers from one client's account to another) evidenced by the documents, correspondence, etc. in the file are properly reflected in the ledger accounts according to the clients' instructions and in a manner complying with the SAR and that their timing is consistent;
  - (c) trace all transfers in respect of client's money to and from other clients' ledger accounts and verify that such transfers were made in accordance with SAR 10;
  - (d) trace all entries, relating to client's money received and paid to the clients' cash book and ensure that the dates correspond;
  - (e) verify that at no time have payments been made in respect of any individual client in excess of money held on that client's behalf;
  - (f) where payments have been made out of client account to office account, verify there has been no breach of SAR 7 in respect of such payments;
  - (g) note any balances in excess of \$5,000 held on client account for more than four months and enquire whether these amounts should have been placed in a separate designated account and, if not, whether any interest is due to the client from the client (general deposit) account (DIR 2);  
Note: It is not within the scope of the accountant's authority to report on breaches of the DIR except where a client's money has been placed in a 'separate account'. However, if the firm also prepares the solicitor's or partnership's financial accounts, it may be necessary to provide for interest accruing to clients where it appears that the solicitor ought to be crediting clients with interest and has not done so.
  - (h) Where client's money is held in a separate designated account, verify that interest received up-to-date has been credited to the client concerned and agree that balance with the bank or other certificate; and
  - (i) check the casts of the selected ledger accounts for the year and agree the balances carried down on each balancing date.

41.7 Where the solicitor has declined to produce a file or document on the grounds of privilege, this should be noted for reference under item 6 (b) of the Accountant's Report, on the grounds that the reporting accountant has been unable to gain satisfaction on that matter.

41.8 Where the solicitor has regularly agreed the client ledger balances with the client account balances during the year, verify that agreement was effected on each occasion or that any adjustments necessary to reconcile them have been made and are satisfactorily explained.

#### 41.9 *Clients' files*

Make a random selection of clients' files and –

- (a) examine correspondence, etc. in connection with the relevant client ledger accounts and verify that the entries therein relating to money received, held and paid out on behalf of those clients have been dealt with either in accordance with the SAR, or in accordance with specific instructions from the client (evidenced in writing) if to the contrary;

- (b) obtain and note explanations for entries in the ledger accounts which are not referred to in the file and vice versa; and
- (c) trace entries in the client ledger to books of original entry (that is, the cash book, bill book, transfer journal, etc.) verifying that transactions on client account and office account have been correctly dealt with throughout.

### *Bills of Costs and Cash Transfer Journal*

#### 42.1 *Bills of costs*

- (a) Make a random selection of entries in the bills delivered book and –
  - (i) check with copy bills or other written intimations of costs and ensure that profit costs are distinguished from disbursements;
  - (ii) check postings to the office ledger and ensure that client's money has not been transferred to office account until after the bill (or other written intimation of costs) has been rendered to the client; and
  - (iii) verify that costs or disbursements included on the bill which were not paid at the date of the bill were so marked.
- (b) Check the casts of bills delivered book and trace the totals to the general ledger.

#### 42.2 *Cash transfer journal*

- (a) Make a random selection of entries in the cash transfer journal and –
  - (i) verify with clients' files that transfer from one client to another are in accordance with the client's instructions and comply with SAR 10;
  - (ii) vouch transfers from client account to office account with copy bills or other written intimation of costs and verify that such transfers are in accordance with SAR 7;
  - (iii) enquire into the reasons for transfers from office account to client account and
    - note the explanations received;
    - confirm with documentary evidence, if any - see SAR 4(c);
    - confirm that such transfers are not attempts to remedy previous breaches of the Rules; and
  - (iv) check postings to the client ledger and entries in the cash book.
- (b) Check the casts and trace totals to cash book for a selected period.

### *Accountant's Report*

- 43.1 Read and understand the Accountant's Report form (refer to the schedule to the ARR - see Appendix B).
- 43.2 Review the working papers with particular attention to the raising and disposal of notes during the course of the examination of the books and records.
- 43.3 Ensure that client ledger balances have been checked or extracted.

- 43.4 Prepare a schedule of all differences and apparent non-compliance with the SAR and give the solicitor's explanations.
- 43.5 Verify that all four of the following conditions have been met in respect of each breach if the Accountant's Report is to be issued with a qualification in the terms of item 6(a) of the Accountant's Report:
- (a) trivial in amount;
  - (b) due to clerical error or mistake in bookkeeping;
  - (c) rectified on discovery;
  - (d) no loss to any client.
- Note:* Whether clerical errors or mistakes in book-keeping may be regarded as trivial breaches will depend not only on the individual amounts involved, but also their nature, cause and frequency.
- 43.6 If the breaches do not fall within all the four criteria noted above, then the qualification should be in the terms of item 6(c).
- 43.7 Matters on which the accountant is unable to gain satisfaction should be itemised in the First Section on the back of the Accountant's Report giving all the facts clearly and concisely with the reasons.
- 43.8 Matters (other than trivial, etc. breaches, as defined above) in respect of which the accountant considers the solicitor did not comply with SAR should be itemised in the Second Section on the back of the Accountant's Report giving all the facts clearly and concisely and referring to the relevant section of the SAR. The Accountant's Report should, wherever possible, specifically state –
- (a) that the breach has been rectified;
  - (b) that no loss resulted to any client;
  - (c) that the system has been amended to prevent a recurrence;
  - (d) any other mitigating factors.
- 43.9 Complete item 7 of the Accountant's Report dealing with the comparisons under ARR 4(1)(f), that is, agreement of the client ledger balances with the client account balances on two separate dates:
- (a) review working papers prepared in respect of paragraph 41 of this programme, in particular, the notes made (and their disposal) during the examination;
  - (b) see that all outstanding lodgements and unpaid cheques forming part of the reconciliations are satisfactorily marked as cleared in the subsequent period;
  - (c) if agreement is not effected absolutely on either or both dates, the facts must be clearly indicated on the Accountant's Report. A difference, however small, cannot be ignored in this part of the Accountant's Report.
- 43.10 In respect of any partner who has retired or otherwise ceased to practice during the period covered by the Accountant's Report, complete the details required in item 8.
- 43.11 When completed and signed, an Accountant's Report for each practising solicitor should be sent to the firm for submission to the Law Society of Singapore. A copy should be retained by

the accountant together with a note of all the partners in respect of whom Accountant's Reports were rendered.

*Note:* If for any reason the Accountant's Reports are modified, a copy should be sent to each partner in the firm.

#### *Management Representation Letters*

- 44.1 Obtain a management representation letter from the audit client, which should include the following:
- (a) That the management acknowledges its responsibility for correcting misstatements in the report and asserting that uncorrected misstatements are not material, both individually and in the aggregate, to the report.
  - (b) That the management has made available to the accountant all books of account (including client's account) and supporting documentation.
  - (c) The report is free of material errors.
  - (d) That the management has complied with all section 73 of the Act and the ARR.



## APPENDIX A

### Legal Profession (Solicitors' Accounts) Rules

#### Citation

1. These Rules may be cited as the Legal Profession (Solicitors' Accounts) Rules.

#### Definitions

2.-(1) In these Rules, unless the context otherwise requires –

"accounting corporation", "accounting firm" and "accounting LLP" have the same meaning respectively, as in the Accountants Act (Cap. 2);

"anticipatory conveyancing money" has the same meaning as in rule 4(4) of the Conveyancing Rules;

"approved finance company" means any finance company registered under the Finance Companies Act (Cap. 108) which is approved by the Minister to accept

(a) deposits of client's money for the purposes of these Rules;

(b) deposits of conveyancing money for the purposes of these Rules and the Conveyancing Rules;

"bank" has the same meaning as in the Banking Act (Cap. 19);

"bank pass book" means a pass book issued by a bank in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such bank, and includes a pass book issued by an approved finance company in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such finance company;

"bank statement" means a statement issued by a bank in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such bank, and includes a statement issued by an approved finance company in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such finance company;

"Central Provident Fund Board" means the Central Provident Fund Board constituted under the Central Provident Fund Act (Cap. 36);

"client" means any person on whose account a solicitor holds or receives client's money;

"client account" means –

(a) a current or deposit account maintained in the name of a solicitor at a bank; or

(b) a deposit account maintained in the name of a solicitor with an approved finance company,

in the title of which account the word "client" appears;

"client's money" means money held or received by a solicitor on account of a person for whom he is acting in relation to the holding or receipt of such money either as a solicitor, or in connection with his practice as a solicitor, an agent, a bailee or a stakeholder or in any other capacity, other than –

(a) money held or received on account of the trustees of a trust of which the solicitor is solicitor-trustee;

(b) money to which the only person entitled is the solicitor himself or, in the case of a firm of solicitors, one or more of the partners in the firm; or

(c) conveyancing money or anticipatory conveyancing money;

"conveyance" has the same meaning as in the Conveyancing and Law of Property Act (Cap. 61);

"conveyancing account", "conveyancing (CPF) account" and "conveyancing money" have the same meanings as in rule 2(2) of the Conveyancing Rules;

"Conveyancing Rules" means the Conveyancing and Law of Property (Conveyancing) Rules 2011 (G.N. No. S 391/2011);

"land" has the same meaning as in rule 2(2) of the Conveyancing Rules;

"public accountant" has the same meaning as in the Accountants Act (Cap. 2);

"Public Accountants Oversight Committee" means the Public Accountants Oversight Committee appointed under section 4 of the Accountants Act (Cap. 2);

"signatory", in relation to a client account, means a solicitor who is authorised to sign a cheque or other instruction effecting a withdrawal from the client account;

"solicitor" means an advocate and solicitor of the Supreme Court, and includes a Singapore law practice;

"solicitor-trustee" means a solicitor who is the sole trustee or co-trustee only with one or more of his partners or employees;

"trust money" means money held or received by a solicitor which is not client's money or conveyancing money and which is subject to a trust of which the solicitor is a trustee whether or not he is the solicitor-trustee of such trust.

- (2) In these Rules, the references to accounts, books, ledgers, journals and records shall include loose-leaf books and such cards or other permanent documents or records as are necessary for the operation of any system of book-keeping, computerised, mechanical or otherwise.

### **Client accounts, conveyancing accounts and conveyancing (CPF) accounts**

- 3.- (1) Subject to rule 9, every solicitor who holds or receives client's money, or money which under rule 4 he is permitted and elects to pay into a client account, shall without delay pay such money into a client account.
- (1A) A solicitor shall not hold or receive conveyancing money except in accordance with the applicable provisions of these Rules and the Conveyancing Rules.
- (1B) Subject to rule 17, a solicitor shall not hold or receive any anticipatory conveyancing money belonging to another person.”;
- (2) Any solicitor may keep one client account or as many such accounts as he thinks fit.
- (3) Any solicitor may keep one conveyancing account or as many such accounts as he thinks fit.
- (4) Any solicitor appointed to act for the Central Provident Fund Board in a conveyancing transaction may keep one conveyancing (CPF) account or as many such accounts as he thinks fit.
- (5) Every conveyancing account or conveyancing (CPF) account kept by a solicitor under paragraph (3) or (4) shall be maintained by the solicitor in accordance with the Conveyancing Rules.

- (6) No money shall be withdrawn from a conveyancing account or conveyancing (CPF) account except in accordance with the Conveyancing Rules.

**Moneys to be paid into client account**

4. There may be paid into a client account -

- (a) trust money;
- (b) such-money belonging to the solicitor as may be necessary for the purpose of opening or maintaining the account;
- (c) money to replace any sum which for any reason may have been drawn from the account in contravention of rule 8 (2);
- (d) money received by the solicitor, which under rule 5(3) he is entitled to split but which he does not split;
- (e) any money provided to the solicitor under rule 5(3) of the Conveyancing Rules, if the solicitor satisfies the condition referred to in that provision; and
- (f) any money received by the solicitor' under rule 5(4) of the Conveyancing Rules, if the solicitor satisfies the condition referred to in that provision.

**Splitting of moneys**

5. -(1) Subject to paragraph (2), a solicitor shall not hold or receive any sum of money which consists of a mixture of conveyancing money and any other money.
- (2) Where any sum of money held or received by a solicitor subsequently becomes a mixture of conveyancing money and any other money, the solicitor shall —
- (a) split the conveyancing money from the other money; and
  - (b) deal with the conveyancing money as if he had received the conveyancing money as a separate sum of money.
- (3) Subject to paragraphs (1) and (2), where a solicitor holds or receives any sum of money which consists of a mixture of client's money, or trust money of one or more trusts, or both, and any other money —
- (a) he may where practicable split the money and, if he does so, he shall deal with each part thereof as if he had received a separate sum of money in respect of that part; or
  - (b) if he does not split the money, he shall, if any part thereof consists of client's money, and may, in any other case, pay the money into a client account.

**No money other than money under rules 3(1), 4 and 5(3) to be paid into client account**

- 6.- (1) No money, other than money under rules 3(1), 4 and 5(3) which a solicitor is required or permitted to pay into a client account, shall be paid into a client account.
- (2) It shall be the duty of a solicitor into whose client account any money has been paid in contravention of this rule to withdraw the money without the delay on discovery.

**Moneys which may be drawn from client account**

7.-(1) There may be drawn from a client account —

- (a) in the case of client's money, any money paid into the client account under rule 4(e) or (f),

or any conveyancing money or anticipatory conveyancing money deposited into the client account before 1st August 2011 which continues to be held in the client account under rule 17(1)(a) -

- (i) money properly required for a payment to or on behalf of the client;
  - (ii) money properly required in full or partial reimbursement of money expended by the solicitor on behalf of the client;
  - (iii) money drawn on the client's authority;
  - (iv) money properly required for or towards payment of the solicitor's costs where a bill of costs or other written intimation of the amount of the costs incurred has been delivered to the client and the client has been notified that money held for him will be applied towards or in satisfaction of such costs; and
  - (v) money to be transferred to another client account;
- (b) in the case of trust money -
- (i) money properly required for a payment in the execution of the particular trust; and
  - (ii) money to be transferred to a separate bank account kept solely for the money of the particular trust;
- (c) such money, not being money to which sub-paragraph (a) or (b) applies, as may have been paid into the account under rule 4(b) or 5(3)(b); and
- (d) money which for any reason may have been paid into the account in contravention of rule 6.
- (2) In the case of client's money and trust money referred to in paragraph (1)(a) and (b), the money so drawn shall not exceed the total of the money held for the time being in the client account on account of the client or trust.

#### **Money from client account - how drawn**

- 8.- (1) Except as provided under rule 7, no money shall be drawn from a client account unless the Council upon an application made to it by the solicitor specifically authorises in writing such withdrawal.
- (2) No money shall be drawn from a client account under rule 7(1)(a)(ii) or; (iv), (c) or (d) except by -
- (a) a cheque drawn in favour of the solicitor; or
  - (b) a transfer to a bank account in the name of the solicitor not being a client account.
- (3) No money shall be drawn from a client account under rule 7(1)(c) or (d) by a cash cheque or a bearer cheque.
- (4) No money shall be drawn from a client account by a cash cheque or a bearer cheque except with the leave of a Judge of the High Court.
- (4A) No money shall be drawn from a client account by means of any -
- (a) automated teller machine;
  - (b) telephone banking service; or

- (c) online banking service.
- (5) No sum exceeding \$5,000 shall be drawn from a client account except upon a cheque (or other instruction effecting the withdrawal) signed by 2 solicitors.
- (6) Paragraph (5) shall not apply if -
  - (a) the solicitor has engaged a book-keeper for the purposes of rule 11(8); and
  - (b) the sum to be drawn does not exceed \$30,000.
- (7) A solicitor shall not sign a cheque or other instruction effecting a withdrawal from a client account if -
  - (a) the solicitor has been -
    - (i) in practice as a solicitor in Singapore for less than 3 years in aggregate; or
    - (ii) employed as a legal officer for less than 3 years in aggregate;
  - (b) the solicitor is not holding a current practising certificate; or
  - (c) the practising certificate of the solicitor is subject to any condition imposed under section 25A or 27A of the Act prohibiting the solicitor from signing such cheques or instructions.
- (8) For the avoidance of doubt, a solicitor shall comply with the requirements of these Rules in respect of the withdrawal of money from a client account notwithstanding that the leave of a Judge of the High Court has been obtained in respect of that withdrawal for the purposes of paragraph (4).

**Where solicitor under no obligation to pay client's money into client account**

- 9.- (1) Notwithstanding the provisions of these Rules, a solicitor shall not be under obligation to pay into a client account client's money held or received by him -
- (a) in the form of cash, and is without delay paid in cash in the ordinary course of business to the client or on his behalf to a third party;
  - (b) in the form of a cheque or draft which is endorsed over in the ordinary course of business to the client or on his behalf to a third party and is not passed by the solicitor through a bank account or an account with an approved finance company account; or
  - (c) which he pays into a separate bank account or into a separate account with an approved finance company opened or to be opened in the name of the client or of some person designated by the client in writing.
- (2) Notwithstanding the provisions of these Rules, a solicitor shall not pay into a client account, money held or received by him -
- (a) which the client for his own convenience requests the solicitor in writing to withhold from such account;
  - (b) for or towards payment of a debt due to the solicitor from the client or in reimbursement of money expended by the solicitor on behalf of the client; or
  - (c) which is expressly paid to him -
    - (i) on account of costs incurred, in respect of which a bill of costs or other written intimation of the amount of the costs has been delivered for payment; or

- (ii) as an agreed fee (or on account of an agreed fee) for business undertaken or to be undertaken.
- (3) Where money includes client's money as well as money of the nature described in paragraph (2), that money shall be dealt with in accordance with rule 5(3).
- (4) Notwithstanding the provisions of these Rules, the Council may upon an application made to it by a solicitor specifically authorise him in writing to withhold any client's money from a client account.

**Transfers between accounts**

10. No sum shall be transferred from the ledger account of one client to that of another, except in circumstances in which –
- (a) it would have been permissible under these Rules to have withdrawn from a client account the sum transferred from the first client and to have paid into a client account the sum so transferred to the second client; or
  - (b) It would have been permissible under the Conveyancing Rules to have withdrawn from a conveyancing account the sum transferred from the first client and to have paid into a conveyancing account the sum so transferred to the second client.

**Cash books, ledgers, journals, etc.**

- 11.- (1) Every solicitor shall at all times keep properly written up in the English language such cash books, ledgers and journals and such other books and accounts as may be necessary -
- (a) to show all his dealings with -
    - (i) client's money received, held or paid by him through a client account;
    - (ii) conveyancing money received, held or paid by him through a conveyancing account or conveyancing (CPF) account; and
    - (iii) any other money dealt with by him through a client account;
  - (b) to show separately in respect of each client all money of the categories specified in sub-paragraph(a) which is received, held or paid by him on account of that client; and
  - (c) to distinguish all money of the categories mentioned in sub-paragraph (b) received, held or paid by him, from any other money received, held or paid by him.
- (2) All dealings referred to in paragraph (1) (a) shall be recorded as may be appropriate -
- (a) in a client's cash book or a client's column of a cash book; or
  - (b) in a record of sums transferred from the ledger account of one client to that of another,
- and in addition -
- (i) in a client's ledger or a client's column of a ledger; and
  - (ii) in a journal.
- (2A) No other dealings shall be recorded in such client's cash book and ledger mentioned in paragraph (2) or, as the case may be, in such client's columns and journal.
- (2B) All dealings of the solicitor relating to his practice as solicitor other than those referred to in paragraph (1) (a) shall, subject to compliance with the Legal Profession (Solicitors' Trust

Accounts) Rules (R 9), be recorded in such other cash book and ledger or such other columns of a cash book and ledger and such journal as the solicitor may choose to maintain.

- (3) In addition to the books and accounts referred to in paragraphs (2) and (2B), every solicitor shall keep a record of all bills of costs (distinguishing between profit costs and disbursements) and of all written intimations under rules 7(1)(a)(iv) and 9(2)(c)(i) delivered or made by the solicitor to his clients, which record shall be contained in a bills delivered book or a file of copies of such bills and intimations.
- (4) Every solicitor shall within one month of his commencing practice on his own account (either alone or in partnership) and thereafter not less than once in every succeeding month cause the balance of his clients' cash books (or clients' column of his cash book) to be reconciled with his clients' bank statements and shall keep in the cash book or other appropriate place a statement showing the reconciliation.
- (5) No solicitor shall make use of any computerised system of book-keeping for the purpose of this rule unless any information which is recorded on such computerised system is capable of being reproduced in the form of a printed document within a reasonable time.
- (6) Every solicitor shall preserve for a period of at least 6 years from the date of the last entry therein -
  - (a) all accounts, books, ledgers and records kept by him under this rule; and
  - (b) all bank statements received by him in respect of each client account, conveyancing account and conveyancing (CPF) account.
- (7) Unless authorised in writing by the Council, no money may be withdrawn from a bank account or a deposit account with an approved finance company, being or forming part of a client account, otherwise than under the signature of a solicitor who is not a person prohibited under rule 8 (7) from signing a cheque or other instruction effecting a withdrawal from a client account.
- (8) Subject to rule 11A, a solicitor may engage a book-keeper to keep his books and accounts properly written up and reconciled as required by this rule.

### **Engagement of book-keeper**

- 11A - (1) A solicitor shall not engage a book-keeper for the purposes of rule 11(8) unless he has obtained the written approval of the Council to do so.
- (2) An application for the approval of the Council to engage a book-keeper for the purposes of rule 11(8) shall be submitted to the Council in such form as the Council may require and shall be accompanied by a statutory declaration affirmed or sworn -
    - (a) if the proposed book-keeper is an accounting firm, by the sole proprietor or managing partner (as the case may be) of the accounting firm -
      - (i) stating that no proprietor or partner of the accounting firm, as the case may be, is an immediate family member of the solicitor;
      - (ia) stating whether the person to be appointed to provide book-keeping services to the solicitor on behalf of the accounting firm has completed any course specified under paragraph (2A) and, if that person has not completed such a course, undertaking that that person will complete the course within 12 months of being so appointed;
      - (ii) undertaking that he will inform the Council in writing immediately if the book-keeper encounters any of the issues referred to in paragraph (8); and

- (iii) undertaking that he will inform the Council in writing immediately if there are any changes in the matters referred to in sub-paragraph (i);
- (b) if the proposed book-keeper is an accounting corporation, by the managing director of the accounting corporation -
  - (i) stating that no director or member of the accounting corporation is an immediate family member of the solicitor;
  - (ia) stating whether the person to be appointed to provide book-keeping services to the solicitor on behalf of the accounting corporation has completed any course specified under paragraph (2A) and, if that person has not completed such a course, undertaking that that person will complete the course within 12 months of being so appointed;
  - (ii) undertaking that he will inform the Council in writing immediately if the book-keeper encounters any of the issues referred to in paragraph (8); and
  - (iii) undertaking that he will inform the Council in writing immediately if there are any changes in the matters referred to in sub-paragraph (i);
- (ba) if the proposed book-keeper is an accounting LLP, by the manager of the accounting LLP -
  - (i) stating that no partner or manager of the accounting LLP is an immediate family member of the solicitor;
  - (ia) stating whether the person to be appointed to provide book-keeping services to the solicitor on behalf of the accounting LLP has completed any course specified under paragraph (2A) and, if that person has not completed such a course, undertaking that that person will complete the course within 12 months of being so appointed;
  - (ii) undertaking that he will inform the Council in writing immediately if the book-keeper encounters any of the issues referred to in paragraph (8); and
  - (iii) undertaking that he will inform the Council in writing immediately if there are any changes in the matters referred to in sub-paragraph (i);
- (c) if the proposed book-keeper is a firm or body corporate providing book-keeping services (other than an accounting firm, accounting corporation or accounting LLP), by the sole proprietor, managing partner or managing director of the firm or body corporate (as the case may be) -
  - (i) stating that no relevant person is an immediate family member of the solicitor;
  - (ia) stating whether the person to be appointed to provide book-keeping services to the solicitor on behalf of the firm or body corporate has completed any course specified under paragraph (2A) and, if that person has not completed such a course, undertaking that that person will complete the course within 12 months of being so appointed;
  - (ii) undertaking that he will inform the Council in writing immediately if the book-keeper encounters any of the issues referred to in paragraph (8);
  - (iii) stating the professional qualifications of persons who will provide book-keeping services to the solicitor on behalf of the firm or body corporate and any relevant experience they may have in preparing accounts for a solicitor; and
  - (iv) undertaking that he will inform the Council in writing immediately if there are any



- changes in the matters referred to in sub-paragraph (i) or (iii); or
- (d) if the proposed book-keeper is an individual, by the book-keeper-
- (i) stating that he is not an employee or immediate family member of the solicitor;
  - (ia) stating whether he has completed any course specified under paragraph (2A) and, if he has not completed such a course, undertaking that he will complete the course within 12 months of being engaged by the solicitor as a book-keeper;
  - (ii) undertaking that he will inform the Council in writing immediately if he encounters any of the issues referred to in paragraph (8);
  - (iii) stating his professional qualifications and, if he is not a public accountant, any relevant experience he may have in preparing accounts for a solicitor; and
  - (iv) undertaking that he will inform the Council in writing immediately if there are any changes in the matters referred to in sub-paragraph (i) or (iii).
- (2A) The Council may specify one or more courses for the purposes of paragraph (2)(a)(ia), (b)(ia), (ba)(ia), (c)(ia) and (d)(ia) by publishing the particulars of the specified courses on the website of the Law Society of Singapore.
- (3) The Council may, in its discretion, refuse to grant its approval for a solicitor to engage a book-keeper for the purposes of rule 11(8) if -
- (a) the book-keeper or any person who will provide book-keeping services to the solicitor on behalf of the book-keeper does not, in the opinion of the Council, possess the requisite professional qualifications or relevant experience to carry out his duties;
  - (b) the book-keeper or (if the proposed book-keeper is a firm or body corporate) any relevant person is an immediate family member of the solicitor;
  - (c) the Council is of the view that the book-keeper or (if the proposed book-keeper is a firm or body corporate) any relevant person is unlikely to act independently of the solicitor; or
  - (d) a notice of disqualification under paragraph (4) or rule 3(2) of the Legal Profession (Accountant's Report) Rules (R 10) has been issued in respect of the proposed book-keeper or (if the proposed book-keeper is a firm or body corporate) any relevant person.
- (4) Where -
- (a) the Public Accountants Oversight Committee has made a disciplinary order against a public accountant under section 52(2) of the Accountants Act (Cap. 2) (or an equivalent provision under the repealed Accountants Act (Cap. 2)) or against an accounting corporation or accounting firm or accounting LLP under section 53(2) of the Accountants Act (Cap. 2) (or an equivalent provision under the repealed Accountants Act);
  - (b) the Council is satisfied that a solicitor has not complied with these Rules and a book-keeper engaged by the solicitor for the purposes of rule 11(8) has failed to inform the Law Society promptly of any issues referred to in paragraph (8);
  - (c) the Council is satisfied that a book-keeper or any relevant person does not satisfy the minimum requirements as to qualifications, independence or experience required by the Council or any statutory declaration furnished to the Council under paragraph (2) was false in regard to any of those requirements; or

- (d) any undertaking under paragraph (2)(a)(ia), (b)(ia), (ba)(ia), (c)(ia) or (d)(ia), relating to the completion of any course specified under paragraph (2A), given by a book-keeper or in respect of a person appointed to provide book-keeping services on behalf of a book-keeper, as the case may be, has not been complied with,

the Council may, in its discretion, at any time notify the book-keeper that he is not qualified to be engaged as a book-keeper for the purposes of rule 11(8).

- (5) The Council may give notice, of the fact that a book-keeper is not qualified to be engaged as a book-keeper for the purposes of rule 11(8), to any solicitor who appears to the Council to be likely to engage that book-keeper for the purposes of rule 11(8) or for the purpose of giving an accountant's report under the Legal Profession (Accountant's Report) Rules (R 10).
- (6) After a book-keeper has been notified that he is not qualified to be engaged as a book-keeper for the purposes of rule 11(8) and until such notice of disqualification has been withdrawn by the Council, he shall not -
  - (a) be engaged as a book-keeper for the purposes of rule 11(8); and
  - (b) be qualified to give an accountant's report under the Legal Profession (Accountant's Report) Rules (R 10).
- (7) In coming to its decision, the Council shall (if the decision is based on any matter referred to in paragraph (4)(a)) take into consideration any observation or explanation made or given by the book-keeper or on his behalf by the Public Accountants Oversight Committee.
- (8) Subject to paragraph (9), the issues which a book-keeper shall be required to undertake to inform the Council under paragraph (2)(a)(ii), (b)(ii), (ba)(ii), (c)(ii) and (d)(ii) are as follows:
  - (a) the book-keeper is unable to reconcile the balance in the client's cash book (or client's column in the cash book) with the bank statements for all or any of the solicitor's client accounts, conveyancing accounts or conveyancing (CPF) accounts in any month;
  - (b) the book-keeper is unable to properly write up the books and accounts as required by rule 11;
  - (c) the solicitor has received, held or authorised the withdrawal of client's conveyancing money in contravention of the applicable provisions of these Rules or the Conveyancing Rules, or both;
  - (d) the solicitor has failed to respond to such query from the book-keeper as is necessary to enable the book-keeper to carry out his duties referred to in sub-paragraph (a), (b) or (c).
- (9) The issues referred to in paragraph (8) shall not include trivial breaches due to clerical errors or mistakes in book-keeping that were rectified upon discovery and did not result in any loss to the client.
- (10) A book-keeper engaged by a solicitor for the purposes of rule 11(8) shall submit to the Council annually a statutory declaration as described in paragraph (2) and the statutory declaration shall be submitted not later than 2 weeks after each anniversary of the date when the Council granted its written approval for the book-keeper to be so engaged by the solicitor.
- (11) In this rule, "immediate family member", in relation to a solicitor, means a spouse, a child, an adopted child, a step-child, a sibling or a parent of the solicitor or (if the solicitor is a partner or director of a law firm, a limited liability law partnership, or a law corporation) of any partner or director of that law firm, limited liability law partnership, or law corporation (as the case may be).
- (12) In paragraphs (2)(c)(i), (3)(b), (c) or (d) or (4)(c), "relevant person" means, in relation to a firm or a body corporate providing book-keeping services to a solicitor, any proprietor, partner,

director, member or employee of the firm or body corporate (as the case may be), or any person who will provide book-keeping services to the solicitor on behalf of the firm or body corporate.

(13) Nothing in this rule shall deprive a solicitor of the right on the grounds of privilege as between solicitor and client to decline to produce to the book-keeper any document which the book-keeper may consider necessary for him to inspect for the purposes of carrying out his duties referred to in paragraph (8) (a) or (b).

(14) Where the solicitor so declines, the book-keeper shall set out the circumstances and particulars of the issue encountered when he informs the Council of the issue.

#### **Power of Council to require production of books of account, etc.**

12.-(1) In order to ascertain whether these Rules have been complied with, the Council acting -

(a) on its own motion; or

(b) on a written complaint lodged with it by a third party,

may require any solicitor to produce at a time and place to be fixed by the Council, his books of account, bank pass books, loose-leaf bank statements, statements of account, vouchers and any other necessary documents for the inspection of any person appointed by the Council and to supply to that person any necessary information and explanations and that person shall prepare for the information of the Council a report on the result of such inspection.

(2) Such report may be used as a basis for proceedings under the Act.

(3) Upon being required to do so, a solicitor shall produce such books of account, bank pass books, loose-leaf bank statements, statements of account, vouchers and documents at the time and place fixed.

(4) Before making any appointment under paragraph (1), the Council shall consider any objection made by any such solicitor to the appointment of a particular person on personal or other proper grounds.

(5) Before instituting an inspection on a written complaint lodged with it by a third party, the Council -

(a) shall require prima facie evidence that a ground of complaint exists; and

(b) may require the payment by that party to the Council of a reasonable sum to be fixed by it to cover the costs of the inspection, and the costs of the solicitor against whom the complaint is made.

(6) The Council may deal with any sum so paid in such manner as it thinks fit.

#### **Intimation of costs incurred**

13. A written intimation of the amount of a solicitor's costs incurred and a notification to a client that money held for him will be applied as mentioned in rule 7(1)(a)(iv) may be delivered to a client in the same manner as a bill of costs is required to be delivered under section 118 of the Act.

#### **Requirements of Council - how made**

14. Every requirement to be made by the Council of a solicitor under these Rules –

(a) shall be made in writing under the hand of the Director or a member of the Council designated by the Council for the purpose; and

- (b) may be served on the solicitor by sending the document by registered post to his usual or last known address.

#### **Notice given by Council to book-keepers**

14A. Every notice to be given by the Council to a book-keeper under these Rules -

- (a) shall be in writing under the hand of the Director or a member of the Council designated by the Council for this purpose; and
- (b) if the book-keeper is an accountant, an accounting firm, an accounting corporation or an accounting LLP, may be served on the book-keeper by sending the notice by registered post to the address of the book-keeper provided to the Council in relation to an application under rule 11A or appearing in the Register of Public Accountants, Register of Accounting Firms or Register of Accounting Corporations (as the case may be) kept and maintained under the Accountants Act (Cap. 2).

#### **Saving**

15. Nothing in these Rules shall deprive a solicitor of any recourse or right, whether by way of lien, set-off, counter-claim, charge or otherwise, against moneys standing to the credit of a client account.

#### **Power to waive provisions**

16. The Council may, if it thinks fit in any particular case, waive any of the provisions of these Rules in writing, subject to such terms and conditions as the Council may impose.

#### **Transitional and savings provisions for conveyancing money or anticipatory conveyancing money deposited into client account before 1st August 2011**

17.- (1) Notwithstanding anything in these Rules or in Part II of the Conveyancing Rules, a solicitor may continue to hold any conveyancing money or anticipatory conveyancing money that is deposited into his client account before 1st August 2011—

- (a) in any case where the money is unclaimed conveyancing money, in accordance with these Rules, until the money is drawn from the client account; or
- (b) in any other case, for a period of 5 months beginning on 1st August 2011.

(2) For a period of 5 months beginning on 1st August 2011—

- (a) rules 2(1), 3 to 6, 7(1), 9(3), 10, 11 and 11A(8) of these Rules in force on or after 1st August 2011 shall not apply to a solicitor in respect of any holding by him of any conveyancing money or anticipatory conveyancing money referred to in paragraph (1); and

- (b) rules 2(1), 3 to 6, 7(1), 9(3), 10, 11, 11A(8) and 11B of these Rules in force immediately before 1st August 2011 shall continue to apply to that solicitor, in respect of that holding by him of the money.

(3) In this rule, “unclaimed conveyancing money” means any conveyancing money or anticipatory conveyancing money deposited into a solicitor’s client account before 1st August 2011 which the solicitor is unable to pay to the person entitled to be paid the money by reason that—

- (a) the solicitor is unable to ascertain—
  - (i) whether that person exists; or

- (ii) the address of that person;
- (b) the solicitor has tendered to that person, but that person has not accepted, the money;
- (c) the solicitor has tendered the money to that person by a cheque, but that person has not encashed the cheque; or
- (d) despite the making of reasonable efforts, the solicitor is unable to tender the money to that person.

## APPENDIX B

### Legal Profession (Accountant's Report) Rules

In exercise of the powers conferred by section 73(4) of the Legal Profession Act, the Council of the Law Society of Singapore, hereby makes the following Rules:

**1 Citation**

These Rules may be cited as the Legal Profession (Accountant's Report) Rules.

**2 Definitions**

In these Rules –

“approved finance company” means any finance company registered under the Finance Companies Act (Cap. 108) which is approved by the Minister to accept either or both of the following:

(a) deposits of client’s money for the purposes of these Rules;

(b) deposits of conveyancing money for the purposes of these Rules and the Conveyancing and Law of Property (Conveyancing) Rules 2011 (G.N. No. S 391/2011);

“bank” has the same meaning as in the Banking Act (Cap. 19);

“bank statement” means a statement issued by a bank in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such bank, and includes a statement issued by an approved finance company in respect of any client account, conveyancing account or conveyancing (CPF) account maintained at such finance company;

“Central Provident Fund Board” means the Central Provident Fund Board constituted under the Central Provident Fund Act (Cap. 36);

"client", "client account", "client's money" and "trust money" have the meanings respectively assigned to them by the Legal Profession (Solicitors' Accounts) Rules (R 8);

“conveyancing account”, “conveyancing (CPF) account” and “conveyancing money” have the same meanings as in rule 2(2) of the Conveyancing and Law of Property (Conveyancing) Rules 2011;

“Public Accountants Oversight Committee” means the Public Accountants Oversight Committee appointed under section 4 of the Accountants Act (Cap. 2);

"trust account" has the meaning assigned to it by the Legal Profession (Solicitors' Trust Account) Rules (R 9).

**3 Qualified accountant**

(1) An accountant shall be qualified to give an accountant's report on behalf of a solicitor if –

(a) he is practising in Singapore and is authorised to practise as a public accountant under the Accountants Act (Cap. 2);

(b) he has neither been at any time during the accounting period, nor subsequently, before giving the report, become -

(i) a partner or an employee of the solicitor or of any partner of his; or

(ii) a partner, a director, a member or an employee of a limited liability law partnership, a law corporation, a Joint Law Venture, a constituent foreign law

practice (of a Joint Law Venture), a Qualifying Foreign Law Practice or a licensed foreign law practice in which the solicitor is a partner or director; and

- (c) he is not subject to a notice of disqualification under paragraph (2) or under rule 11A (4) of the Legal Profession (Solicitors' Accounts) Rules.

(2) Where –

- (a) the Public Accountants Oversight Committee has made a disciplinary order against a public accountant under section 52 (2) of the Accountants Act (Cap. 2) or an equivalent provision under the repealed Accountants Act (Cap. 2, 2001 Ed.); or
- (b) the Council is satisfied that a solicitor has not complied with the provisions of the Legal Profession (Solicitors' Accounts) Rules (R8) in respect of matters not specified in an accountant's report and that the accountant who gave the report was negligent in giving the report, whether or not an application be made for a grant out of the Compensation Fund,

the Council may, in its discretion, at any time notify the accountant that he is not qualified to give an accountant's report.

- (3) The Council may give notice, of the fact that an accountant is not qualified to give an accountant's report, to any solicitor who appears to the Council to be likely to engage or employ that accountant for the purpose of giving an accountant's report or to be a book-keeper for the purposes of rule 11(8) of the Legal Profession (Solicitors' Accounts) Rules.
- (4) After the accountant has been notified by the Council that he is not qualified to give an accountant's report and until such notice of disqualification has been withdrawn by the Council, he shall not –
  - (a) be qualified to give an accountant's report; and
  - (b) be engaged or employed as a book-keeper for the purposes of rule 11(8) of the Legal Profession (Solicitors' Accounts) Rules.
- (5) In coming to its decision, the Council shall (if the decision is based on a matter referred to in paragraph (2) (a)) take into consideration any observation or explanation made or given by the accountant or on his behalf by the Public Accountants Oversight Committee.

#### **4 Duties of accountant**

- (1) For the purpose of giving an accountant's report, an accountant shall ascertain from the solicitor particulars of all accounts (excluding trust accounts) maintained by the solicitor at any bank or with any approved finance company kept, maintained or operated by the solicitor in connection with his practice at any time during the accounting period to which his report relates and, subject to paragraph (2), make the following examinations of the books, accounts and other relevant documents of the solicitor: -
  - (a) examine the book-keeping system in every office of the solicitor so as to enable the accountant to verify that such system complies with rule 11 of the Legal Profession (Solicitors' Accounts) Rules (R 8), and is so designed that –
    - (i) an appropriate ledger account is kept for each client;
    - (ii) such ledger accounts show separately from other information particulars of all clients' money, conveyancing money and other money received, held or paid on account of each client; and
    - (iii) transactions relating to clients' money and any other money dealt with through a client account, and transactions relating to conveyancing money dealt with

through a conveyancing account or conveyancing (CPF) account, are recorded in the solicitor's books so as to distinguish such transactions from transactions relating to any other money received, held or paid by the solicitor;

- (b) make test checks of --
  - (i) postings to clients' ledger accounts from records of receipts and payments of —
    - (A) client's money and any other money dealt with through a client account; and
    - (B) conveyancing money dealt with through a conveyancing account or conveyancing (CPF) account; and
  - (ii) the costs of each client account, conveyancing account and conveyancing (CPF) account (if any) and of such records;
- (c) compare –
  - (i) a sample of lodgments into and payments from a client account (as shown in bank statements) with the solicitor's records of receipts and payments of clients' money and any other money dealt with through the client account; and
  - (ii) a sample of lodgments into and payments from a conveyancing account or conveyancing (CPF) account (as shown in bank statements) with the solicitor's records of receipts and payments of conveyancing money dealt with through the conveyancing account or conveyancing (CPF) account, as the case may be; and
- (d) enquire into and test check the system of recording costs and of making transfers in respect of costs from each client account, conveyancing account and conveyancing (CPF) account (if any);
- (e) make a test examination of such documents as he shall request the solicitor to produce to him with the object of ascertaining and confirming –
  - (i) that the financial transactions, (including those giving rise to transfers from one ledger account to another) evidenced by such documents, are in accordance with the Legal Profession (Solicitors' Accounts) Rules; and
  - (ii) that the entries in clients' ledger accounts reflect those transactions in a manner complying with the Legal Profession (Solicitors' Accounts) Rules;
- (f) extract (or check extractions of) balances on the clients' ledger accounts during the accounting period under review at not fewer than 2 dates selected by the accountant (one of which may be the last day of the accounting period), and at each such date -
  - (i) compare the total as shown by such ledger accounts of the liabilities to the clients (including those for whom trust money is held in a client account, or conveyancing money is held in a conveyancing account or conveyancing (CPF) account), with the cash book balances on every client account, conveyancing account, conveyancing (CPF) account (if any), clients' fixed deposit account with a bank or approved finance company (including such a fixed deposit account in which trust money is held) and other fixed deposit account; and
  - (ii) reconcile such cash book balances and fixed deposit with confirmations obtained by the accountant direct from the bank or approved finance company;



- (g) satisfy himself that reconciliation statements have been kept in accordance with rule 11(4) of the Legal Profession (Solicitors' Accounts) Rules (R 8);
  - (h) make a test examination of the clients' ledger accounts in order to ascertain whether the payments made from any client account, conveyancing account or conveyancing (CPF) account in respect of any client are in excess of the money held on behalf of that client in that account;
  - (i) peruse such office ledger and cash accounts and bank statements as the solicitor maintains with a view to ascertaining whether ---
    - (i) any client's money has not been paid into a client account; or
    - (ii) any conveyancing money has not been paid into a conveyancing account or, if paid by the Central Provident Fund Board, into a conveyancing (CPF) account; and
  - (j) ask for such information and explanations as he may require arising out of subparagraphs (a) to (i).
- (2) Nothing in paragraph (1) shall require the accountant –
- (a) to extend his enquiries beyond the information contained in the relevant documents relating to any client's matter produced to him supplemented by such information and explanations as he may obtain from the solicitor;
  - (b) to enquire into the stocks, shares, other securities or documents of title held by the solicitor on behalf of his clients; or
  - (c) to consider whether the books or accounts of the solicitor have been properly written up in accordance with rule 11 of the Legal Profession (Solicitors' Accounts) Rules at any time other than the times as at which his examination of those books and accounts takes place.
- (3) If after making an examination under paragraph (1), it appears to the accountant that there is evidence that the Legal Profession (Solicitors' Accounts) Rules (R 8) have not been complied with, the accountant shall make such further examination as may be necessary in order to complete his report with or without qualification.

## 5 Privilege

- (1) Nothing in these Rules shall deprive a solicitor of the right on the grounds of privilege as between solicitor and client to decline to produce to the accountant any document which the accountant may consider it necessary for him to inspect for the purposes of his examination in accordance with rule 4.
- (2) Where the solicitor so declines, the accountant shall qualify his report to that effect setting out the circumstances.

## 6 Accountant's report

- (1) An accountant's report delivered by a solicitor or a partner or director of a limited liability law partnership or law corporation under these Rules shall be in the form set out in [the Schedule](#) or in a form to the like effect approved by the Council.
- (2) The accountant's report must include the identification number of the accountant giving the report.

## 7 Where accountant's report unnecessary

The Council will, in each practice year, be satisfied that the delivery of an accountant's report under [section 73\(1\) of the Act](#) is unnecessary and shall not require evidence of that fact, in the case of any solicitor who -

- (a) does not hold a practising certificate and –
  - (i) has never held one; or
  - (ii) having held one, has not practised in any Singapore law practice at any time during the accounting period ending on the date upon which he ceased to practise, or has delivered an accountant's report in respect of his practice in a Singapore law practice covering the accounting period ending on the date upon which he ceased to practise and to hold or receive client's money or conveyancing money, or both; or
- (b) holds a current practising certificate –
  - (i) for the first time;
  - (ii) for the first time, after having for 12 months or more ceased to do so; or
  - (iii) has satisfied the Council that –
    - (A) the Legal Profession (Solicitors' Accounts) Rules (R 8) are not applicable to him because he is employed only as an assistant solicitor by another solicitor or firm of solicitors or limited liability law partnership or law corporation and has not, during the period to which the said application relates, practised alone or in partnership or been held out to the public as a partner or director of a firm of solicitors, limited liability law partnership or law corporation or held or received client's money or conveyancing money; or
    - (B) the Legal Profession (Solicitors' Accounts) Rules are not applicable to him because during the period to which the said application relates he has not practised as a solicitor alone or as a partner or director of a firm of solicitors, limited liability law partnership or law corporation or been held out to the public as a partner or director of a firm of solicitors, limited liability law partnership or law corporation or has not held or received client's money or conveyancing money.

## 8 **Accounting period for solicitor exempted under rule 7 obliged to deliver first report**

- (1) In the case of a solicitor who –
  - (a) becomes under an obligation to deliver his first accountant's report; or
  - (b) having been exempt under rule 7 from delivering an accountant's report in the preceding practice year, becomes under an obligation to deliver an accountant's report,

the accounting period shall begin on the date upon which he first held or received client's money or conveyancing money, or, after such exemption, began again to hold or receive client's money or conveyancing money.

- (2) The accounting period referred to in paragraph (1) may cover less than 12 months and shall in other respects comply with the requirements of section 73(3) of the Act.

- (3) In the case of a solicitor retiring from practice who, having ceased to hold or receive client's money or conveyancing money, or both, is under an obligation to deliver his final accountant's report; the accounting period ---
- (a) shall end on the date upon which he ceased to hold or receive client's money or conveyancing money, or both;
  - (b) may cover less than 12 months; and
  - (c) shall in all other respects comply with the requirements of section 73(3) of the Act.

**9 Accounting period for other solicitors**

In the case of a solicitor who -

- (a) was not exempt under rule 7 from delivering an accountant's report in the preceding practice year; and
- (b) since the expiry of the accounting period covered by his last accountant's report has become, or ceased to be, a member of a firm of solicitors or a partner or director of a limited liability law partnership or a law corporation,

the accounting period may cover less than 12 months and shall in all other respects comply with the requirements of section 73(3) of the Act.

**10 Requirements of Council – how made**

Every requirement to be made by the Council of a solicitor under these Rules -

- (a) shall be made in writing under the hand of the Director or a member of the Council designated by the Council for the purpose; and
- (b) may be served on the solicitor by sending the document by registered post to his usual or last known address.

**11 Notice given by Council to accountants**

Every notice to be given by the Council to an accountant under these Rules -

- (a) shall be in writing under the hand of the Director or a member of the Council designated by the Council for this purpose; and
- (b) may be served on the accountant by sending the notice by registered post to the address of the accountant as shown on the accountant's report or appearing in the Register of Public Accountants kept and maintained under the Accountants Act (Cap. 2).

**12 Power to waive provisions**

The Council may, if it thinks fit in any particular case, waive any of the provisions of these Rules in writing, subject to such terms and conditions as the Council may impose.

THE SCHEDULE

Rule 6(1)

LEGAL PROFESSION ACT  
(CHAPTER 161)

LEGAL PROFESSION  
(ACCOUNTANT'S REPORT) RULES

ACCOUNTANT'S REPORT  
FOR SOLICITOR IN SINGAPORE LAW PRACTICE

*Note:* In the case of a Singapore law practice with a number of partners or directors, carbon copies of the report may be delivered provided paragraph 1 below is completed on each report with the name of the individual solicitor.

1. Solicitor's full name \_\_\_\_\_

2. Name(s) and address(es) of Singapore law practice

\_\_\_\_\_  
\_\_\_\_\_

*Note:* All addresses in Singapore at which the solicitor practises must be covered by an accountant's report or reports.

3. State whether practising alone/in partnership/as a partner in a limited liability law partnership/as a director in a law corporation

\_\_\_\_\_  
\_\_\_\_\_

4. Accounting period(s) \_\_\_\_\_

*Note:* The period(s) must comply with section 73 of the Legal Profession Act and the Legal Profession (Accountant's Report) Rules (R 10).

5. In compliance with section 73 of the Legal Profession Act and the Legal Profession (Accountant's Report) Rules, I have examined to the extent required by rule 4 of the said Rules the books, accounts and documents produced to me in respect of the above practice(s) of the abovenamed solicitor.

6. In so far as an opinion can be based on this limited examination, I am satisfied that during the abovementioned period(s) he has complied with the provisions of the Legal Profession (Solicitors' Accounts) Rules (R 8), except in so far as concerns —

\*(a) certain trivial breaches due to clerical errors or mistakes in book-keeping, all of which were rectified on discovery and none of which, I am satisfied, resulted in any loss to any client;

\*(b) the matters set out in the First Section hereof, in respect of which I have not been able to satisfy myself for the reasons therein stated;

\*(c) the matters set out in the Second Section hereof, in respect of which it appears to me that the solicitor has not complied with the provisions of the Legal Profession (Solicitors' Accounts) Rules.

7. The results of the comparisons required under rule 4(1)(f) of the Legal Profession (Accountant's Report) Rules (R 10), at the dates selected by me were as follows:

(a) at \_\_\_\_\_

\*(i) the figures were in agreement;

\*(ii) there was a difference computed as follows:

Liabilities to clients as shown by clients' ledger accounts	\$
Total amount of cash held in every client account, conveyancing account and conveyancing (CPF) account, after allowance for outstanding cheques and lodgments cleared after date	\$
	_____
	\$ _____

(b) at \_\_\_\_\_

\*(i) the figures were in agreement;

\*(ii) there was a difference computed as follows:

Liabilities to clients as shown by clients' ledger accounts	\$
Total amount of cash held in every client account, conveyancing account and conveyancing (CPF) account, after allowance for outstanding cheques and lodgments cleared after date	\$
	_____
	\$ _____

8. \*(a) Having retired from active practice as a solicitor, the said \_\_\_\_\_ ceased to hold client's money or conveyancing money, or both, on \_\_\_\_\_

(b) Having ceased to practise under the style or as a partner/director of \_\_\_\_\_ the said

\_\_\_\_\_ ceased to hold client's money or conveyancing money, or both, on \_\_\_\_\_

\_\_\_\_\_

Particulars of Accountant:

Full Name \_\_\_\_\_

Singapore NRIC No./FIN \_\_\_\_\_

Qualifications \_\_\_\_\_

Firm Name and Address \_\_\_\_\_

\_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

To: The Council,  
The Law Society of Singapore,  
Singapore.

#### FIRST SECTION

Matters in respect of which the accountant has been unable to satisfy himself and the reasons for the inability:

#### SECOND SECTION

Matters (other than trivial breaches) in respect of which it appears to the accountant that the solicitor has not complied with the provisions of the Legal Profession (Solicitors' Accounts) Rules (R 8):

\_\_\_\_\_

\*Delete whichever is inapplicable.

## **Appendix 2** **Charities**

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### **Foreword**

This Statement is based on the Auditing Guideline on ‘Charities’ issued by the Institute of Chartered Accountants in England and Wales. The Institute of Singapore Chartered Accountants (ISCA) acknowledges its gratitude to the Institute.

This Statement should be read in conjunction with Appendix 1(I) of AGS 1<sup>1</sup>.

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<sup>1</sup> AGS 1, *Sample Independent Auditor’s Reports*

## Introduction

### Scope

1. This Statement applies to the independent examination of, and expression of an opinion on, the financial statements of charitable organisations by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation. It is particularly relevant to the audit of charities which would normally expect to receive a substantial proportion of their income from voluntary sources, including those small charities which have a few voluntary workers and relatively small income.
2. The audit of financial statements of charities may be required by statute, by the charity itself (e.g. by the constitution, by specific request of the governing body) or by the Commissioner of Charities under section 14 of the Charities Act (Cap 37).
3. This Statement does not apply in circumstances where the engagement relates to the preparation of financial statements and not to the audit of those financial statements.

### Definitions

4. A *Charity* is defined in the Charities Act (Cap 37), to mean 'any institution, corporate or not, which is established for charitable purposes and is subject to the control of the High Court in exercise of the Court's jurisdiction with respect to charities.'
5. *Charitable purposes* is defined in the Charities Act (Cap 37) to mean 'purposes which are exclusively charitable according to the law of Singapore.'
6. In a U.K. case (Commissioner for Special Purposes of Income Tax v. Pemsel 1891), charitable purposes were classified by Lord MacNaghten into four principal divisions:
  - (i) the relief of poverty;
  - (ii) the advancement of education;
  - (iii) the advancement of religion; and
  - (iv) other purposes beneficial to the community not falling under any of the preceding heads.

## Accounting

### Purpose of Financial Statements - Stewardship

7. Charities exist not to generate profits but to meet an identified objective; consequently their performance is often measured in financial terms, not by the surplus of income over expenditure, but rather by the size of the income and the way in which it has been spent. Thus the primary purpose of the annual financial statements of a charity is to account for the stewardship of the funds entrusted to it by the public, the state and others. Financial statements may also be necessary for other reasons. For example, in the case of a corporate charity, financial statements must be prepared in a manner to comply with statutes. Section 16 of the Charities Act (Cap 37) also requires the annual report, which includes the financial statements, to be submitted to the Commissioner of Charities within 6 months from the end of the financial year.

### Form of Financial Statements

8. Under sections 12 and 13 of the Charities Act (Cap 37), charities are required to keep proper accounting records. The Charities (Accounts and Annual Report) Regulations 2011 require a statement of accounts to be prepared for each financial year, with the corresponding sum for



the previous financial year to be stated for each sum disclosed in the statement of accounts or in the notes to the statement of accounts. Where a charity is subject to other statutory regulations, there may be a requirement in these for proper accounting records.

The form of the financial statements should comply with the applicable reporting standards, i.e. the Charities Accounting Standard (CAS) or Financial Reporting Standards in Singapore (FRSs). Charities that adopt the FRSs may elect to present the statement of comprehensive income based on the presentation format of a statement of financial activities as required by the CAS.

The financial statements should comprise:

- (a) an income and expenditure account showing the income and expenditure of the charity during the financial year;
  - (b) a balance-sheet showing the assets, liabilities and funds of the charity at the end of the financial year;
  - (c) an explanation of the accounting policies used to prepare the accounts;
  - (d) the details of transactions relating to, and the state of, the various funds of the charity;
  - (e) notes on –
    - (i) how the funds reflected in the balance-sheet must or may be utilised because of restrictions imposed by donors; and
    - (ii) the relationships between, and analyses of, the information contained in the income and expenditure account and balance-sheet; and
  - (f) notes which explain, expand on or provide the circumstances relating to, or other useful information on, the information contained in the income and expenditure account and balance-sheet.
9. Where the gross income in any financial year of a charity, that is not a company, does not exceed \$50,000, the governing board members may, in respect of that year, elect to prepare a receipts and payments account and a statement of assets and liabilities, instead of a financial statements as stated under paragraph 8 above.

## **Accounting Policies**

10. It is essential that the financial statements of all charities should include a statement of the main accounting policies in accordance with the CAS or FRS 1. The disclosure of significant accounting policies assumes greater importance than for other enterprises in the absence of specific guidance on the application of FRS 1 to non-profit organisations and charities in particular. The most important accounting policies for a charity will probably include:
- (a) the basis on which income has been taken to the credit of the revenue account (for example, accruals or cash basis, policy with regard to legacy income, gross or net profit from trading activities);
  - (b) the basis on which expenditure has been charged to the statement of financial activities for the financial period (for example, accrual or cash);
  - (c) the accounting treatment of property, plant and equipment and investments, including donated assets;
  - (d) the presentation of the special funds and the movements thereon; and
  - (e) the treatment of branches.

## Financial Reporting Standards

11. All charities are subject to a statutory or constitutional requirement to present statements of accounts and it is clearly desirable that a true and fair view should be given. As indicated in the preface to FRS, FRSs apply to all general financial statements intended to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.
12. The FRSs are applicable to all charities registered under the Charities Act when preparing their financial statements covering periods beginning on or after 1 July 2011. The CAS was issued by the Accounting Standards Council on 24 June 2011 and applies to charities when they prepare their financial statements for financial periods beginning on or after 1 July 2011. The CAS is available as an alternative financial reporting framework to FRSs for all registered charities and Institutions of a Public Character that are registered under the Charities Act, except for charities that hold significant investments in any subsidiary, associate or joint venture that is not a charity. Such charities shall adopt the FRSs as their financial reporting framework.

Charities that adopt the FRSs are required to comply with the additional regulatory requirement(s) specified under the Charities (Accounts and Annual Report) Regulations 2011 to provide specific disclosures in their financial statements on loans extended to any parties. These specific disclosures are set out under paragraph 280 of the CAS.

## Auditing

### Scope

13. The scope of the audit will depend on the status of the charity and the form of report to be given. The charity may have been constituted:
  - (a) by trust deed;
  - (b) as a society;
  - (c) as a company limited by guarantee under the Companies Act; or
  - (d) by special Act of Parliament.
14. Where the charity is a company, a society or in many cases where it is incorporated by special Act of Parliament, the minimum audit requirements are laid down by statute. In other cases, the constitutional documents should be examined to determine audit requirements and discussions held with the trustees of the charity. Even in cases where the audit requirements are well defined, the trustees *should* be consulted, as they may wish to expand the scope of the audit to cover, for example, specific instructions for the auditors to look for fraud. Once the scope of the audit has been established, it should be defined and explained in a suitably worded letter of engagement.

### Key Audit Areas Peculiar to Charities

15. *Donations and fund-raising.* It may be difficult to ensure the completeness and accuracy of recording of income from donations and fund-raising activities. Notwithstanding that income should be recognised based on the principles set out in CAS or FRSs, the cut-off date for the cash income of some charities is not always the year-end date. A later date is sometimes being adopted because of the importance of accounting for income collected but not yet remitted by voluntary supporters. Donations can also take the form of capital gifts such as shares or property, which require to be valued.

16. Sources and types of income which may require the special attention of the auditor include:
- (a) donation boxes;
  - (b) deeds of covenant;
  - (c) flag days and door-to-door collections;
  - (d) functions and meetings;
  - (e) other fund-raising events;
  - (f) donations in kind; and
  - (g) income subject to restrictions.

The auditor should consider the areas highlighted in paragraphs 29 to 46 when the above sources and types of donations are involved.

17. *Legacies*. These may give rise to problems of completeness where, for example, they involve reversionary gifts. The auditor's procedures should confirm that, where possible, the charity has followed up legacies.
18. *Government grants and loans*. Charities can be eligible for a number of loans and grants. The auditor should be familiar with the *workings* of the grant or loan system and the accepted ways of treating grants or loans in the financial statements. In addition, the auditor needs to be aware of the differences in accounting treatment between CAS and FRSS. Under CAS, charities are not allowed to defer grant income over the useful life of the asset, and should be recognised as income in the year that it is received, unless there are pre-conditions to be met.
19. *Branches*. Some charities regard a voluntary organiser in a particular area as a branch, while others only confer branch status on a local office. It can thus be difficult to decide the status of a branch, and whether its transactions and balances should or can be included in the main financial statements. This is a matter which should be dealt with in a letter of engagement. A charity that operates through 'branches' to raise funds and/or carry out its charitable purposes shall account for these branches as part of the charity, by including them within the charity's own financial statements. Where a branch has its own separate constitution which is quite different from that of the main charity, its transactions and balances will properly be excluded from the financial statements of the charity. Where branches are excluded, it is essential that adequate disclosure is made in the financial statements, and consideration given as to whether the auditor's report should be suitably modified. There may also be a problem for the auditor in forming an opinion on branches which do not have proper accounting disciplines.
20. *Overseas activities*. Where records are maintained overseas and the amounts are material, the auditor should give consideration to a local audit. If remittances to overseas branches are treated as an expense when made, evidence of receipt will be required.
21. *Unrestricted and restricted funds*. Charities may produce separate accounts to detail movements in certain funds which represent monies raised for specific projects. Tests will need to be designed to confirm that these funds have been correctly accounted for and applied according to any restrictions placed.
22. *Grants to beneficiaries*. The auditor should confirm that the bona fides of the recipient have been established. For example, the auditor will look for evidence of the payment and bona fides of a sample of grants made by the charity, and scrutinise all grants of an unusual size or nature.
23. *Related party transactions*. A related party transaction is defined in the CAS and FRSS as a transfer of resources, services or obligations between related parties, regardless of whether a

price is charged. The auditor should look into the nature of the related party relationships, as well as information about transactions and outstanding balances, including commitments the charity has with these parties and ensure that proper disclosures have been made.

## **Procedures**

24. In all audits, the scope will be determined by, and the audit procedures used will vary in accordance with, the terms of the auditor's appointment. The level of audit evidence to be obtained will be a matter of judgement for the auditor in each individual case.

## **Planning**

25. When planning the audit of a charity the auditor should particularly consider the following:
- (a) the scope of the audit (see paragraph 13);
  - (b) recent recommendations and guidances of the Commissioner of Charity or the other regulatory bodies;
  - (c) the acceptability of accounting policies adopted;
  - (d) changes in circumstances in the sector in which the charity operates;
  - (e) changes in the scale or nature of the charity's operations;
  - (f) past experience of the effectiveness of the charity's accounting system;
  - (g) key audit areas (see paragraphs 15 to 23);
  - (h) the amount of detail included in the financial statements on which the auditor is required to report; and
  - (i) whether the entity is a public interest entity.

## **Audit Evidence**

26. When designing substantive tests for charities the auditor should give special attention to the possibility of:
- (a) understatement or incompleteness of the recording of all income including gifts in kind, cash donations, and legacies;
  - (b) overstatement of cash grants or expenses;
  - (c) mis-analysis or misuse in the application of funds;
  - (d) mis-statement or omission of assets including donated properties and investments; and
  - (e) the existence of restricted or uncontrollable funds in foreign or independent branches.
27. The extent of testing required will depend on the scope of the audit. Similarly, while the level of audit testing would provide reasonable expectation of detecting material mis-statements resulting from fraud, the charity may seek further assurance that fraud has not taken place.
28. Analytical review procedures as applied to a commercial enterprise, including the comparison of one year's financial statements with another, may need to be modified in the case of a charity. Particular consideration should be given to the relationship between appeals income and related expenses, loans to related parties, and investments and the income from such investments. In addition, in the case of a charity, a comparison between the actual results and

the budget approved by the governing board may also be performed as part of the procedures. A comparison of the fund raised by particular branches from one period to the next may also be carried out and explanations obtained for significant differences.

## Internal Controls

29. The auditor will have to consider whether there are any internal controls on which he may wish to rely, or whether he will need to carry out extensive substantive testing. Large charities should have the internal controls appropriate to any large enterprise, and the auditor should look for and encourage the charity to implement internal controls and reporting systems, particularly for financial matters in key areas, that are adequate for the scale of operations.
30. Small charities will generally suffer from internal controls weaknesses common to small enterprises, such as lack of segregation of duties and use of unqualified staff. The auditor will have to consider particularly carefully whether he will be able to obtain adequate assurance that the accounting records do reflect all the transactions of the enterprise. Adequate control may often be available in a small charity by means of increased review and authorisation procedures by the trustees or other officials of the charity.
31. In considering internal controls the auditor should bear in mind any related reporting requirements, as in the case of an audit performed by order of the Commissioner of Charities under section 14 of the Charities Act (Cap 37).
32. Generally, the auditor will hope to be able to rely on the internal controls of the charity in one or more key areas wherever the volume of transactions makes this reliance desirable. For example, the auditor might wish to rely on the charity's system of authorising and controlling grants payments by the grants committee. His compliance tests might include checking with the minutes concerned and other documentation.
33. Examples of the internal controls which are expected to be present in most charities are given in paragraphs 34 to 46 below. Other areas where the auditor might seek to rely on internal controls are dealt with in SSA 315 (Revised)<sup>2</sup> and SSA 330<sup>3</sup>.
34. Donations - donation boxes and tins
  - (a) Numerical control over donation boxes and tins;
  - (b) Satisfactory sealing of boxes and tins so that any opening prior to recording is apparent;
  - (c) Regular collection and recording of proceeds from donation boxes; and
  - (d) Dual control over opening of donation boxes, counting and recording of proceeds.
35. Donations - postal and cash
  - (a) Dual control over the opening of mail; and
  - (b) Immediate recording of donations on opening mail or receipt of cash.
36. Donations – internet
  - (a) Security of the computer systems including system access rights and password controls; and
  - (b) Reliability of commercial fund-raisers or commercial participators who collect donations on behalf of the charities.

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<sup>2</sup> SSA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

<sup>3</sup> SSA 330, *The Auditor's Responses to Assessed Risks*

37. Donations – flag day
  - (a) Collectors should be properly supervised;
  - (b) Collections should be carried out by a two-person team;
  - (c) Collection bags/boxes should be properly numbered and sealed; and
  - (d) Collectors should make signature upon receipt and return of collection bags/boxes.
38. Deeds of covenant
  - (a) Regular checks and follow-up procedures to ensure due amounts are received; and
  - (b) Regular checks to ensure all tax repayments have been obtained.
39. Legacies
  - (a) Comprehensive correspondence files maintained in respect of each legacy, numerically controlled;
  - (b) Search agency reports of legacies receivable; and
  - (c) Regular reports and follow-up procedures undertaken in respect of outstanding legacies.
40. Fund-raising activities
  - (a) Records maintained for each fund-raising event;
  - (b) Check that the total fund raising expenses of a charity shall not exceed 30% of the total receipts from fund-raising and sponsorships for that financial year;
  - (c) Comparable controls maintained over receipts as for normal donations; and
  - (d) Comparable controls maintained over expenses as for administrative expenses.
41. Government grants and loans
  - (a) Regular checks that all sources of income or funds are fully exploited and appropriate claims made;
  - (b) Ensuring income or funds are correctly applied in accordance with the terms of the grant or loan; and
  - (c) Comprehensive records of applications made and follow-up procedures for those not discharged.
42. Branches
  - (a) Any branch, office or individual representative of the charity should make regular reports or returns to the charity, and checks should be made to ensure that all these are received;
  - (b) Any reports of the misuse of the charity's name should be promptly investigated;
  - (c) Wherever the trustees of the charity have direct control over the branches, internal controls should be of equivalent standard to that of the main charity;

- (d) Consideration of an accounts manual and the standardisation of procedures at all branches; and
  - (d) Proper acknowledgements of remittances to and from abroad.
43. Property, plant and equipment and depreciation
- (a) A register of property, plant and equipment maintained including donated assets;
  - (b) Assets vested in the Official Custodian, where appropriate;
  - (c) Donated assets recorded at approximate market value, where appropriate; and
  - (d) Depreciation calculated and recorded as for commercial enterprises, where the accounting policy requires.
44. Unrestricted and restricted funds
- Records maintained of:
- (a) separate revenue and assets accounts;
  - (b) terms controlling application of fund monies; and
  - (c) applications of fund monies.
45. Grants to beneficiaries
- (a) Records maintained of all requests for material grants received and their treatments;
  - (b) Checks made to ensure the bona fides of applicants for substantial grants, and that amounts paid are intra vires;
  - (c) Minutes maintained of all Grants Committee meetings with record of decisions made; and
  - (d) Adequate documentation given to Committee for them to base their decision on the accurate facts.
46. Bank records
- The following controls will have particular significance:
- (a) prompt banking of receipts;
  - (b) independent agreement of banking records to receipts records;
  - (c) regular bank reconciliations;
  - (d) scrutiny of returned cheques for unusual or frequent endorsements; and
  - (e) adequate arrangements for bank signatories.

## **Audit of Financial Statements**

47. If the charities are required to be audited, such audits shall be carried out by a public accountant. The auditor must consider carefully whether the accounting policies adopted are appropriate to the activities, constitution and objectives of the charity, and are consistently applied, and whether the financial statements adequately disclose these policies and fairly present the state of affairs and the results for the accounting period.

48. In particular the auditor should consider the basis of:
- (a) disclosing income from fund-raising activities (for example, net or gross);
  - (b) accounting for income and expenses (accruals or cash);
  - (c) the capitalising of expenditure on property, plant and equipment;
  - (d) apportioning administrative expenditure; and
  - (e) recognising income from donations and legacies.
49. In determining whether the financial statements comply with all relevant statutory requirements and other regulations, it is necessary to take account of the legal framework within which a particular charity operates.
50. In determining whether proper disclosures have been made, the auditor should refer to the disclosure requirements in the CAS and FRSs and consider the presentation of:
- (a) special or irregular income or expenditure;
  - (b) unrestricted and restricted funds;
  - (c) net surplus/deficit for the period;
  - (d) allocation of funds;
  - (e) movements on particular funds;
  - (f) statements of source and application of funds;
  - (g) realised and unrealised surpluses/deficits on disposal or revaluation of assets;
  - (h) branch accounts; and
  - (i) detailed analysis of income and expenses.
51. Charities without significant endowments or accumulated funds will often be dependent upon future income from voluntary sources, in order to meet the financial commitments arising from the continuation of their activities. In these circumstances, the audit of the financial statements may lead the auditor to question whether a going concern basis of accounting is appropriate. He should therefore, in forming an opinion on the matter, take account of the amount of, and trends in, income and expenditure since the accounting date, any forecasts and representations by management as to future income and expenditure and (where relevant) the market value of the charity's tangible assets.

## Reporting

52. Where the auditor is to express an opinion on financial statements intended to give a true and fair view this statement should also be read in conjunction with SSA 700 (Revised)<sup>4</sup>.
53. The form of the auditor's report should take into account the requirements of the Charities Act and its regulations. In addition, the form of auditor's report and the persons to whom it will be addressed will depend on the constitution of the particular charity concerned. For example, the auditor's report on the financial statements of a charity registered under the Companies Act is determined in accordance with the provisions of that Act and addressed to the members or appropriate governing body. The auditor's report on the financial statements of a charity registered under the Societies Act will be in another form and addressed to the charity

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<sup>4</sup> SSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*



itself. In other cases, where charities are not governed by statute, the auditor's report will be determined in accordance with the terms of the auditor's appointment. For example, it may be appropriate for the auditor to report only that the financial statements have been prepared in compliance with regulations governing the charity's operations.

54. If applicable, the auditor should identify in his report the statutory provisions under which he has carried out his audit. Where appropriate he should state that the accounts comply with the Companies Act, relevant Regulations or the specific applicable Act of Parliament. Where a charity is not incorporated under an Act of Parliament, reference should normally be made to the trust deed or other constitutional document of the charity under which the accounts have been produced.

### **Form of Unmodified Auditor's Report**

55. Examples in AGS 1 Appendix 1(I) would be a suitable form of unmodified auditor's report for most charities.

### **Modifications in Auditor's Reports**

56. The basic criteria regarding modifications in auditor's reports are the same in charities as in other audits and thus SSA 705 (Revised)<sup>5</sup>.
57. A particular and frequent problem for many small charities is the difficulty of applying proper control over voluntary donations until they are entered in the accounting records. This creates a problem for auditors similar to that which exists in relation to many small businesses regarding evidence of completeness of income. Where such a problem does exist, even after the auditor has taken steps to obtain all the evidence which can reasonably be obtained he may conclude that he is unable to give an unmodified opinion on the financial statements in respect of the completeness of income. The auditor should refer to SSA 705 (Revised) and SSA 706 (Revised)<sup>6</sup> for guidance on the form and the content of the modifications to the auditor's report.
58. Considerations relating to the disclosure of accounting policies by, and the application of FRSs and CAS to, charities are dealt with in paragraphs 10 to 12 above. Where there are departures from FRSs and CAS with which he concurs and these are adequately disclosed and explained in the financial statements, it should not be necessary for the auditor to refer to these in his report.

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<sup>5</sup> SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>6</sup> SSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

## **Appendix 3**

### **Audit of Trade Unions**

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### **Introduction**

1. The Trade Unions Act, Cap. 333 (the Act) provides for the registration and control of trade unions in Singapore. A trade union is defined in section 2 of the Act as:  
  
'Any association or combination of workmen or employers, whether temporary or permanent, whose principal object is to regulate relations between workmen and employers for any or all of the following purposes:  
  
(a) to promote good industrial relations between workmen and employers;  
  
(b) to improve the working conditions of workmen or enhance their economic and social status; or  
  
(c) to achieve the raising of productivity for the benefit of workmen, employers and the economy of Singapore;  
  
and includes any federation'.  
  
2. This Statement gives guidance on the special factors to be considered in the audit of trade union accounts which are required to be prepared under sections 51 and 53 of the Act for submission to the Registrar of Trade Unions (the Registrar) and to union members. It should be read in conjunction with the SSA 200<sup>1</sup> and other related SSAs.  
  
3. This Statement is based on the law as at 31 July 2004. Members are advised to keep up to date with changes in the law relating to trade unions.

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<sup>1</sup> SSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing*

## Provisions of The Act Relating to Accounts, Funds and Audit

### *Sections 44, 46, 47, 48, and 49 - Use and Investment of Funds*

4. These sections deal with the application of funds and with specific prohibitions. Subject to the rules of the trade union and to the provisions of the Act, funds may only be expended for the following objects:
  - (a) remuneration of trade union officials;
  - (b) administration expenses;
  - (c) cost of legal proceedings for protecting the rights of the trade union and its members;
  - (d) cost of conducting trade disputes;
  - (e) compensation to members for losses arising out of trade disputes;
  - (f) allowances to members or their dependents, for death, old age, sickness, accidents and unemployment of such members;
  - (g) any other objects notified by the Minister in the Gazette.

Section 2 of the Trade Unions (Expenditure of Funds) Notification also indicates the objects for which funds may be expended for.

The committee of every registered trade union shall open a current account with a bank in the name of the trade union, and all monies received by the trade union, except moneys the disposal and custody of which are governed by rules relating to a benevolent fund, shall be paid into that account within 7 days of the receipt thereof, except that the treasurer of the secretary of the trade union may retain as cash-in-hand such sum as may, by the rules of the trade union, be prescribed. All cheques or withdrawal orders drawn on that account shall be signed by the chairman (or the analogous officer) or in his absence of the vice-chairman (or the analogous officer) and the treasurer or secretary.

5. Where monies have been collected from members for a specific purpose, such funds shall not be used for any other purpose without the requisite consent of members of the trade union.

A registered trade union shall not create a benevolent fund unless rules governing the creation, administration, protection, control and disposal of such fund and governing all matters connected therewith or incidental thereto have been approved in writing by the Registrar. The Registrar shall not approve such rules unless he is satisfied that the interests of the members of the trade union in such fund are adequately safeguarded.

6. The Act specifically prohibits the use of funds for:
  - (a) payment of fines or penalties imposed on any person by the Court.
  - (b) contributions to political parties or for a political purpose.
7. After 2 April 1983, funds can be invested only in:
  - investments authorised by law for the investment of trust money;
  - interest earning deposits with banks or finance companies;
  - in shares of co-operatives established by any registered trade union; or

- such undertaking, enterprise or scheme, the promoter or proprietor of which is the Singapore Labour Foundation or a company formed by or related to the Singapore Labour Foundation, as the Minister may approve for the purposes of this paragraph.

Prior to this date, any other investments that were lawfully made will still be valid.

Subject to section 46(2) of the Act, the trade union may also purchase or lease land or any buildings and to subsequently sell, exchange, lease, or charge such assets.

Section 44 of the Act requires all property, movable or immovable, of a registered trade union to be vested in its trustees for the use and benefit of the trade union and its members and shall be under the control of the trustees.

### *Sections 51, 53 - Accounts and Audit*

8. Section 51 of the Act requires the treasurer of a registered trade union to render to the union and its members a just and true account of the funds under his custody or control:
  - (a) upon resigning or vacating his office;
  - (b) at least once in every year at such time as may be specified by the rules of the union;
  - (c) at any other times at which he may be required to do so by a resolution of the members or by the rules of the union.
9. The accounts shall cover the period which has elapsed since the date of his assuming office or since the last date upon which he has rendered such accounts. The accounts which may be in a form prescribed by the Trade Unions Regulations, shall be verified by statutory declaration and audited by a person approved by the Registrar and shall be an accountant within the meaning of the Accountants Act (Cap. 2).
10. Section 53 of the Act requires every trade union to submit an annual return, relating to its affairs, to the Registrar. The annual return is to be for twelve months ending on 31 March and to be filed on or before a prescribed date, which is stipulated as on or before 30 September in each year under section 17 of the Trade Unions Regulations.
11. The accounts contained in the annual return shall show all receipts and expenditure during the twelve months and the assets and liabilities of the trade union as at that year-end.
12. As indicated in the Preface to FRS, FRS apply to all general financial statements intended to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions. Where a true and fair view opinion is given on the accounts of a trade union, it is important for the auditor to use his judgement as to the appropriateness or otherwise of a FRS to the individual circumstances of the trade union concerned.
13. Accounts prepared under the above sections are required to be audited by an auditor approved by the Registrar. A specimen of the Auditors' Report to be issued on such accounts is given in the Appendix. The regulations also list the following specific items that have to be reported if noticed during the audit:
  - any unauthorised payments
  - any losses incurred by the trade union as a result of negligence or misconduct of any person
  - any funds belonging to the trade union that have not been brought into account by any person.

Any instances of the above should be included in a long-form report.

## **Auditing Procedures**

14. The following procedures are supplementary to those given in the SSAs.

### *Planning*

15. The auditor should pay particular attention to the wording of the union's constitution, rules and to minutes recording decisions regarding audit made by the executive committee of a trade union. He should send an engagement letter to the executive committee to confirm his understanding of the terms of his appointment. The letter should indicate that the audit will be performed in accordance with SSAs and should also indicate the matters which he is required to state in his report. The auditor should also use the engagement letter to exclude any requirements which he cannot reasonably fulfil, such as requirement for the auditor to 'certify' the accounts as being 'correct'.
16. When planning the audit of a trade union, the auditor should also consider:
- (a) the need, to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels;
  - (b) the extent of understanding of the trade union, its environment (including its internal control), based on the auditor's professional judgment;
  - (c) the amount of detail included in the accounts on which he is required to report;
  - (d) decisions of the executive committee of the trade union which affect the audit on the matters upon which he is required to report;
  - (e) any comments made by the Registrar following the submission of the previous year's annual return;
  - (f) any changes which might have taken place in the law and regulations relating to trade unions.

### *Accounting Systems*

17. The auditor should consider the union's accounting system and related internal controls to gain an understanding of the flow of transactions and the specific control procedures to be able to make a preliminary evaluation and identification of those internal controls on which it might be effective and efficient to rely in conducting his audit.
18. Members' contributions represent the largest source of income for trade unions. It will therefore be necessary for the auditor to obtain an understanding of the accounting system in respect of contributions. In order to make an assessment of its adequacy, he will have to consider its completeness and proper cut-off methodologies. This will involve his examining the methods for updating membership and contribution records, the procedures for ensuring that all contributions due (including those collected by employers) are properly received and the arrangements for ensuring that all contributions are banked promptly and intact. He should also examine the systems dealing with arrears of contributions.
19. In particular, where there are delays between the date of collection and remittance to the trade union, the auditor will need to satisfy himself as to the appropriateness of the method of determining arrears and the reasonableness of the figures produced.

### *Audit Evidence*

20. Particularly important sources of evidence in respect of a trade union are the membership and contribution records. Normally, an examination of these records, and the figures contained

within them, will assist the auditor in obtaining the assurance that he requires in respect of members' contribution income.

21. There may be circumstances, however, where the auditor is unable to satisfy himself that the membership and contribution records are adequately maintained or it may not be possible to obtain adequate audit evidence as to the completeness of contributions. In such circumstances and where alternative auditing procedures are not available, the auditor should consider whether he has received all the information and explanations that he requires in order to form an opinion. He may have to conclude that there is uncertainty as to whether:
- (a) the accounts show a true and fair view;
  - (b) the trade union has kept proper accounting records; and
  - (c) the trade union has maintained a satisfactory system of control over its transactions.
22. Other important sources of audit evidence are the constitutions, rules and minuted decisions. The minuted decisions represent an important source because many significant decisions affecting financial matters may be taken by specific committees. Examples of key areas where the auditor will have to rely on trade union constitutions, rules and minuted decisions are as follows:
- (a) *Contributions, entrance and affiliation fee.* The auditor will have to consider whether contributions, entrance and affiliation fees have been collected at the correct rates.
  - (b) *Fines and special levies receivable.* The auditor will have to consider whether the trade union has power to enforce fines and certain special levies.
  - (c) *Benefits payable.* Most benefits are recurring expenditure for which the trade union rules lay down the basis of entitlement, the scales of benefit and the terms and conditions of benefit. One of the principal conditions is usually that the applicant is not in arrears with his contributions and is eligible for the benefits.
  - (d) *Travel, subsistence and attendance payments and allowances.* Apart from day-to-day travel and subsistence of officials or employees in the course of trade union business, payments are frequently made in connection with attendance at conferences, negotiating committees and fraternal delegations. The auditor will have to consider whether such payments made are in accordance with agreed scales.
  - (e) *Dispute payments and receipts.* Industrial disputes sometimes involve payment of dispute benefit (strike pay) and related expenses, and occasionally involve the receipt of donations. Although these situations are usually referred to in the trade union constitutions and rules, they are normally too infrequent and the circumstances too varied to warrant detailed treatment. The conduct of such disputes is accordingly usually determined by decisions of the appropriate executive committee. The auditor should, therefore, take note of the detailed proposals for the conduct of the dispute as expressed in the relevant minutes or satisfy himself that decisions taken are in accordance with properly delegated authority. He should also devise tests to check whether receipts and payments are in accordance with the system laid down and are properly evidenced.
  - (f) *Petty cash limits* The auditor will have to consider the petty cash limit to be kept by the General Treasurer. All other receipts by or for the trade union above the petty cash limit shall be paid into such banking accounts of the trade union and all funds of the trade union shall be deposited with such banks or such other financial institutions as may be by the constitutions, rules and minuted decisions of the trade union.
  - (g) *Expenditure approval limits* The auditor will have to consider the expenditure approval limits for the administration of the trade union, by the respective officers of the trade union.

23. Representations by management are another source of audit evidence. Such representations should be confined to matters which are material to the accounts and which are mainly considerations affecting judgement and opinion. Matters of fact can also be included, however, where they are material and where knowledge of the fact is confined to management. In the case of a trade union, knowledge of the fact that all trade union funds and transactions for the period have been disclosed to the auditor may be confined to senior officials and therefore may need to be confirmed in writing. A letter addressed to the auditor confirming such representations should be approved by the body responsible for approving the accounts and should be signed on its behalf by the general secretary or other designated officer of the trade union.

### *Internal Controls*

24. Large trade unions should have the internal controls appropriate to any large enterprise, and the auditors should look for and encourage such a trade union to implement normal internal controls and reporting systems in keeping with the scale of operations.
25. Small trade unions will generally suffer from internal control weaknesses common to all small enterprises, such as lack of segregation of duties and use of unqualified or part-time staff. Shortcomings may possibly arise in the implementation of formal procedures from the staff's lack of training, particularly if they are volunteers. Adequate control may often be available by means of increased review and authorisation procedures by committee members or other officials of the trade union.
26. Some indications of the internal controls which might be present in most trade unions are given below:
- (a) Bank signatories do not have access to cheque books.
  - (b) Cheque books are not pre-signed.
  - (c) Office holders do not keep accounts but have engaged accounting staff to handle accounts.
  - (d) Bank reconciliation statements are prepared and reviewed regularly.
  - (e) Monthly financial statements are scrutinised at executive committee meetings.
  - (f) Office holders have approval limits. Any expenditure above approval limits are approved by executive committee before they are incurred.
  - (g) Investments are registered in the name of the trustees.
27. Financial organisation
- (a) Preparation and appraisal of budgets.
  - (b) Comparison of actual performance against budgets.
  - (c) Monitoring in detail by specific committees or officers of expenditure incurred.
28. Contributions and entrance fees
- (a) Regular checks to ensure that the membership, contribution and affiliation records are being kept up-to-date.
  - (b) Ensuring that contributions, entrance and affiliation fees are collected at the appropriate rates.

- (c) Reconciliations between contributions, entrance and affiliation fees received and the membership records.
  - (d) Investigation of arrears by officials. Where possible, these officials should not be responsible for collecting or handling contributions, entrance and affiliation fee monies.
  - (e) Checks to ensure that any amount accounted for by officers or other persons collecting contributions and affiliation fees are in accordance with agreed rates and any deductions for collecting commissions or included expenditure are properly controlled.
29. Fines and special levies receivable
- Regular checks to ensure that fines and special levies receivable are properly imposed and recorded and are in accordance with agreed rates.
30. Benefits payable
- (a) Regular checks to ensure that benefits payable are properly recorded.
  - (b) Checks to ensure that applicants fulfil all conditions necessary before receiving benefits.
31. Travel, subsistence and attendance payments and allowances
- (a) Regular checks to ensure that claims are bona fide
  - (b) Ensuring that payments are made in accordance with agreed scale rates
  - (c) Checks to ensure that claims for loss of earnings are properly supported
32. Dispute payments and receipts
- (a) Ensuring that dispute payments and receipts are properly recorded;
  - (b) Checks to ensure that dispute payments and receipts are dealt with in accordance with the trade unions constitutions, rules, minuted decisions or decisions made by officials with appropriate authority.
33. Separate funds
- (a) Ensuring that separate funds are set up for different purposes;
  - (b) Checks to ensure that receipt and expenditure, assets and liabilities and numbers of members contributing are properly identified and recorded in respect of each separate fund.
34. Cash and bank
- (a) Prompt banking of receipts
  - (b) Independent agreement of banking records to receipt records
  - (c) Regular bank reconciliations
  - (d) Adequate arrangements for bank signatories
  - (e) Periodic checking of petty cash by an independent official



35. Investments
- (a) Ensuring that investments are properly recorded and vested with the union's trustees who should be in control of the investments
  - (b) Periodic checks to ensure that investment income due is in fact received,
  - (c) Proper authorisation of purchases and disposals of investments
  - (d) Regular checking of the register of investments with evidence of title
  - (e) Investments approved by Executive Committee are in accordance to the Act and its constitution and thereafter vested with the trustees.
  - (f) Ensuring that investments are registered in the names of the Trustees i.e. "Trustee named A, Trustee named B and Trustee name C, as Trustees of Union Name".
36. Properties
- (a) Ensuring all property transactions are properly authorised and in accordance with the Act
  - (b) Ensuring that all properties are properly recorded and that all rental income due is in fact received.
  - (c) Ensuring all properties are invested in the names of the Trustees i.e. "Trustee named A, Trustee named B and Trustee name C, as Trustees of Union Name".
37. Other fixed assets
- (a) Ensuring fixed assets acquisition, disposal and write off are properly authorised as per the expenditure approval limits stated in the constitution.

#### *Audit of Financial Statements*

38. In addition to accounting policies, the auditor should consider:
- (a) the basis for apportioning administrative expenses and taxation between funds; and
  - (b) the basis for the transfers of funds designated for various purposes.
39. Certain trade unions may adopt a system of budgetary control over expenses. During his general review, therefore, the auditor should compare the income and expenditure for the period under review with budgeted figures and consider the explanations for any variances arising.
40. In connection with the presentation and disclosure, the auditor should consider whether:
- (a) the treatment of transactions, assets and liabilities in relation to the rules and objects of the trade union is appropriate;
  - (b) there has been proper disclosure of separate funds;
  - (c) there has been appropriate disclosure of the allocation of the income and expenditure between funds and of any transfers between funds; and
  - (d) a single statement of source and application of funds is appropriate where there is several revenue accounts produced, each covering separate activities of the trade union.

41. Where the annual return is completed some considerable time after the auditor has signed his auditor's report on the accounts, the auditor should update his review of events after the balance sheet date and consider the effect that this might have on his report on the accounts contained in the annual return. The review should cover the period from the auditor's report date to the date of the annual return.
42. In reviewing the accounts contained in the annual return to ensure compliance with the relevant requirements, the auditor should consider:
  - (a) the trade union constitutions, rules and executive committee decisions; and
  - (b) the relevant Acts, Regulations and Notifications made thereunder.

## APPENDIX

### Auditor's Report on Financial Statements of a Trade Union Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a Trade Union (Union) using a fair presentation framework. The audit is not a group audit (i.e., SSA 600<sup>2</sup> does not apply).
- The financial statements are prepared by management of the Union in accordance with Financial Reporting Standards in Singapore (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210<sup>3</sup>.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise 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 relating to the audit in Singapore, and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the Union's ability to continue as a going concern in accordance with SSA 570 (Revised)<sup>4</sup>.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SSA 701<sup>5</sup>.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of \_\_\_\_\_ (the Union), which comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

<sup>2</sup> SSA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

<sup>3</sup> SSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>4</sup> SSA 570 (Revised), *Going Concern*.

<sup>5</sup> SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Trade Unions Act, Chapter 333 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the state of affairs of the Union as at 31 December 20X1 and of the results, changes in equity and cash flows of the Union 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 Union 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.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>6</sup>**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Union'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 is 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 Union's internal control.<sup>7</sup>

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<sup>6</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>7</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

- 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 Union'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 Union 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 by Regulation 16A of the Trade Union Regulations to be kept by the Union have been properly kept in accordance with those regulations.

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

- (a) the Union has not maintained a satisfactory system of control over its assets and transactions in accordance with Regulation 16A of the Trade Unions Regulations;
- (b) the Union's funds were not invested in the manner as prescribed in section 46 and section 49(1)(b) of the Act or the rules of the Union; and
- (c) there were payments made by the Union during the period that were not authorised by the Act or the Trade Unions Regulations or the rules of the Union.

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the SSAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the SSAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the SSAs where such a difference exists.]*

\_\_\_\_\_ (Firm)  
Public Accountants and  
Chartered Accountants  
Singapore

\_\_\_\_\_ (Date)