



# *Diploma in Charity Accounting: Practice - sample script 1*

## 1. POLICY, LAW AND REGULATION

1a.

- i) Describe one development in policy, law or regulation;
- ii) Explain the impact of this development on your client(s); and
- iii) Explain the advice you gave to enable implementation or compliance.

### **Advice on how the new SORP 2015 and FRS 102 affects a charity**

One of my audit clients is a large charity (income £50m, net assets £88m) that provides and promotes religious education and worship. It is a charitable company limited by guarantee. When it came to their first period under FRS 102 and SORP 2015, the Board of Trustees asked for our advice on how these regulations would impact their reporting and disclosures in the annual accounts.

The Trustees' Report required significant improvements to comply with the new SORP, notably in areas such as risk management and disclosure of strategies to mediate such risks, whilst the accounts themselves required adjustments as regards legacy income recognition, the treatment of financial instruments (e.g. discounting to present value receivables and payables) and adjustments of key accounting policies and terms to comply with FRS 102 terminology.

In preparation for this regulatory change, I had attended a technical course hosted by the ICAEW that reviewed key areas in the new SORP and FRS 102, as I knew that this would be invaluable in providing me with the knowledge required to aid my charity clients through a period of major regulatory change. In order to help this client, I first of all consulted with the audit partner on this job, who has an extensive knowledge and many years' experience of charity accounting and audit. I prepared a brief of the main areas where I felt the new regulations would impact this client and reviewed this with him. I then presented this to the charity's Head of the Treasury Department, along with primary accounts staff. I reviewed step by step the main areas of the regulations that would impact their accounts and what the correct treatment would be. I also highlighted key estimations that management would be required to make (e.g. determining what deemed legacy income to be 'probable' and therefore included as income) and stressed that whilst as their auditors we can provide advice and suggestions on recognition, to avoid a management and independence threat, these decisions must be made solely by management. I also provided my findings in a written report.

In attending both the course and preparing for and giving the presentation to the client, I was able to thoroughly investigate and understand the new regulations and disclosure requirements. I was also able to improve my communication skills; maintaining the balance of conveying technical knowledge in an understandable and relatable manner. This experience also proved crucial when, a month later, my firm hosted a SORP 2015/FRS 102 seminar to our largest charity clients, of which I presented the keynote address.

(Word count, excluding question titles and requirements: 424)

## 2. RESOURCE MANAGEMENT

2a.

- i) Describe one issue of resource management at a client;
- ii) Explain how you addressed the issue; and
- iii) Explain how this enabled you to recommend improvements to the client.

### **Advising and aiding a charity on implementing a new IT and accounts system**

A small charity client (income £101k, net assets £117k) of mine raises awareness and provides support to vulnerable adults and youths within the justice system. They can only afford to employ 2 full-time members of staff due to funding limitations. The staff struggle to deal with the workload and had been hindered by an archaic accounting and IT system that was highly inefficient due to multiple duplications of processes and lack of integration across programmes, which proved time-consuming and frustrating in an already pressured environment. The Chief Executive approached my firm to seek advice on updating their systems and to engage us to implement and transition them onto a superior one.

As one of the main advocates of cloud-based software at my firm, I was keen to see how this could be used to improve processes and resource management within my client. I investigated the capability of the software to cope with the various requirements of a not-for-profit such as this; management/departmental/activity based reporting by funder and grant, staff payroll and expense claim handling as well as invoice processing and integration. I also consulted the Chief Executive on their current processes and systems and determined where the key inefficiencies were. I then compared this to the way the cloud-based software could handle the same processes and ascertained that savings would be made by staff in terms of time management, accessibility (moving to a cloud-based rather than server-based system) and adaptability/personalisation of reporting.

I reported my findings back to the Chief Executive. Once he had gained approval from the Board of Trustees, my team and I drew up a budget and action plan of the transfer to the new system. We handled the entire data transfer and set-up within the new software, whilst simultaneously reviewing and streamlining their Chart of Accounts so as to provide a clearer and more accurate picture of the charity's finances. I also provided a personalised training event with the Chief Executive and staff to guide them through the various features, which included a hands-on demonstration of the software in action as well as a Q & A discussion at the end. We continue to provide support as part of our agreement with the client, and I am in frequent communication with them to further enhance and troubleshoot their usage. They have closed down their old software and have remarked upon the great time savings made by having one system that can handle all their processes as well as the intuitive way it handles their data.

(Word count, excluding question titles and requirements: 419)

### 3. MARKETING, FUNDRAISING, INCOME GENERATION AND INCOME DISTRIBUTION FOR PUBLIC BENEFIT

3a.

- i) Describe one marketing, fundraising, income generation or income distribution campaign/strategy undertaken by a client;
- ii) Explain the advice you gave in connection with the campaign; and
- iii) Explain how this benefited the client.

#### **Income Distribution Strategy via the provision of Research Grants**

One of my charity audit clients (£1.3m income, net assets £2.6m) raises awareness of and funds research into the nature, causes, treatment and prevention of glaucoma. One of its key charitable activities is the provision of grants to various research colleges, societies and universities who are working on tackling the issue of glaucoma.

These grants are widely advertised within the eye care sector. Applications made by researchers are put before a review panel consisting of a mixture of medical trustees, patients and other healthcare advisors. Once an application is approved, a grant timetable and budget is drawn up and measured against a research schedule. Instalments are paid at predetermined stages in the research project.

As part of our standard audit procedures on the grant creditors, I noted that many of these outstanding grants were historic balances, that there had been no communication with the researchers for many years, and that in many cases, only the first instalment had been paid. I was therefore concerned at the validity of these creditors, as well as whether funds set aside for such project could be put to better use in more active projects in line with the charity's aims and objectives. I passed these concerns onto the audit partner on this job, who agreed with my findings. We organised a review meeting with the Head of Finance as well as the Grants Co-ordinator to discuss improvements to this strategy and to ensure that these would be better monitored and reviewed in future periods.

I presented my concerns to the Head of Finance and then performed a review of long-standing grant creditors with her to ascertain whether these projects were still viable. We inspected communication between the charity and the researchers to establish whether any progress was being made on the projects and whether the original timetables were being adhered to. Once we had determined a list of grants that were not compliant with the original timetable agreed at the inception of the grant, the Head of Finance put in place a review by the Grant Co-ordinator to evaluate these grants as to whether they would be withdrawn or additional conditions be placed upon the recipients.

As a result of our work with the client, they have since withdrawn multiple grants that were not progressing and providing any benefit to the charity's stakeholders. They have also added stricter controls and implemented more rigorous reviews of any subsequent grants given to researchers so that charitable funds are put to more immediate and beneficial use. This has resulted in funds being more effectively deployed for charitable purposes via more active research projects.

(Word count, excluding question titles and requirements: 436)

## 4. STRATEGY AND GOVERNANCE

4a.

- i) Describe one issue of strategy and governance at a client;
- ii) Explain how you addressed the issue; and
- iii) Explain how this benefited the client.

### **Assisting a charity merger and preparing cessation accounts**

A client of mine (income £134k, net assets £74k) supports communities in South East England, as well as advancing education and health. However, they faced severe funding cuts and were subsidising their services out of reserves. Nevertheless, they were still producing significant results and providing valuable assistance to their members and other stakeholders, so were loath to close. They were therefore seeking alternative methods of funding.

They were approached by a similar charity operating in a different geographical area regarding a potential merger. The Chair of the Board of Trustees approached my firm to discuss this proposal and to consider the impact on the charity.

As my client was significantly smaller than the other charity, they would be merged into the other organisation. I was concerned about the impact of this on restricted funds within my client and whether these restrictions would be upheld going forward. I needed to ensure that the Trustees would not be guilty of poor governance and held responsible for misappropriation of restricted funding. I relayed my concerns to both the client and the partner in charge.

Upon discussion with the partner, I undertook a review of the funding applications and grants to determine what the restrictions were. I then communicated this to the merger charity management personnel and explained the importance of adhering to these restrictions. I additionally stressed these to the trustees of my client, and highlighted to them their responsibilities as regards governance over such funds.

The next stage was to ascertain how much restricted funding was going to be transferred to the merging charity, as well as in what form to transfer it. I prepared cessation accounts on the breakup basis and carried out an Independent Examination on the processes used to transfer the assets and funds of my client to ensure that all had been done legally and according to statutory requirements. I prepared a brief for the trustees to detail the requirements they needed to fulfil in the Trustees' Report under these unusual circumstances so as to satisfy good governance.

My work benefited my client because it highlighted to them the gravity of their responsibilities as trustees to ensure the security and application of restricted funding. They were therefore able to put in place agreements regarding the use of this funding within the merged organisation and could display good governance over these funds. This meant that the funds were used in the appropriate way to support their members in line with charitable aims. Additionally, the trustees were very grateful for my support in a difficult and unusual situation, as I was able to provide them with reminders on their responsibilities and obligations as trustees, as well as reporting and governance guidelines they had to comply with.

(Word count, excluding question titles and requirements: 456)

## 5. CHARITY ACCOUNTING, AUDITING AND TAXATION

5a.

- i) Describe one significant charity accounting/audit/taxation issue that you have encountered at a client;
- ii) Explain how you addressed it; and
- iii) Explain the technical knowledge/skills that you used in doing so.

### **Accounting treatment of undetermined property loan**

One of my largest charity audits (income £43m, net assets £115m) is a corporation that supports a religious order, provides biblical literature and holds properties that are used to further religious education.

Prior to my involvement, it was discovered that the corporation held a large overseas asset that had been previously attributed to a sister charity abroad. For many years the foreign charity had been maintaining and improving the property owned by my client. Due to fund restrictions and taxation implications upon the overseas charity, it was decided that these improvements would be deemed a long-term loan to my client.

During the first audit under FRS 102, I undertook a review of the treatment of any material basic long-term liabilities, to ensure they were compliant with FRS 102 section 11.14 and held at amortised cost. Prior to this, this loan was being held at cost. The initial issue with amending this was that there was no definite repayment term, so the basis on which to discount to present value was missing.

I consulted the ICAEW technical helpline and articles and reporting manuals in addition to a thorough reading of FRS 102 itself. I determined that within the standard, there are 2 scenarios regarding long-term loans like this; if there are contractual terms to the loan, then it must be held at amortised cost under long-term liabilities. If no contractual terms are in place, then it is deemed repayable on demand, held at cost as a current liability. I obtained a copy of, and confirmation from management of, the original agreement between my client and the overseas charity. I also obtained the same from the trustees of the foreign corporation. Both confirmed that no contractual repayment terms were entered into. Therefore I determined that the liability should not be discounted to present value and should be shown as a current liability. I passed my findings to the audit partner who agreed. I drew up a memo outlining my research and the applicable section in the standard and presented this to key management personnel, whilst highlighting that they must make decisions for themselves to negate a potential management threat. They accepted this and made the appropriate adjustment and disclosure.

To come to this conclusion, I had to demonstrate detailed technical knowledge of an obscure section of FRS 102. As I did not initially have this, I showed I was capable of doing extensive research drawing upon a variety of resources, both interactive (ICAEW helpline) and written (standards, commentaries and reporting manuals). I was then able to apply the technical points to my specific situation and evaluate them to come to a conclusion. I conveyed my findings to a range of individuals with varying levels of financial and technical knowledge.

(Word count, excluding question titles and requirements: 457)

## 6. FINANCIAL MANAGEMENT

6a.

- i) Describe one issue of financial management at a client;
- ii) Explain how you addressed the issue; and
- iii) Explain how this enabled you to add value to the client.

### **Reviewing and establishing internal controls regarding overseas donations**

A medium-sized charity audit client based in Ireland (2.5m EUR income, net assets 1.3m EUR) regularly makes donations of both cash and goods to overseas sister charities with similar objects and aims.

As part of our standard audit procedures I undertook a review of the internal controls associated with these donations. I wanted to ascertain whether the client ensured that the donations were used for purposes that adhered to their charitable aims, as well as make certain that these assets were safeguarded throughout the donation process.

During a walk-through of the system, however, I noted that no goods received notes or confirmations were ever received from the recipient charities. On enquiring further to the staff in the shipping department, I discovered that this was because no GRNs were requested or chased. This meant that the donated goods were at risk of being mislaid or stolen en route and that the cash donations were never confirmed as to their usage after receipt. This was clearly not a satisfactory safeguarding system for charitable funds.

I therefore obtained a sample of donations, both cash and goods, and traced through the entire process to confirm that no GRN had been received. I documented this and took my findings to the audit partner for review. Upon receiving his approval, I discussed the system with the shipping overseer and the accounts payable overseer. I outlined to them the importance of ensuring the safety of charitable funds and assets from start to finish in the donations process and discussed the gap in the system. Once I had drawn their attention to this deficiency in their internal controls, they agreed that they needed to improve their safeguarding of donated assets. I recommended that they request either GRN or confirmation from the recipient charity that funds had been received and the uses for the funds confirmed as per agreed charitable activities. To complete my audit test on the usage of the overseas donations, I also wrote to the recipient charities in my aforementioned sample to obtain direct confirmations of the receipt and use of the funds and assets. I received in reply either electronic confirmations of receipt and usage of funds or photographic evidence of the receipt of the goods themselves.

My work added value to the client because it has improved their internal controls by highlighting the gap between when assets left their control and were received into the hands of the overseas charities. It has also added value because they can now demonstrate better governance over their assets in ensuring that all charitable funds and assets are given the appropriate care and attention, as well as being used solely for charitable activities.

(Word count, excluding question titles and requirements: 445)

## 7. CONCLUSION

Drawing together your responses to requirements 1-6, set out three key learning points from your experience, highlighting skills acquired or developed and lessons learnt.

### Learning points

Working within the charitable sector has enabled me to develop greater specific technical knowledge. It has also helped me to understand the challenges and decisions facing trustees, which differ greatly from those facing directors in a commercial setting.

3 key learning points are:

1. Helping my client apply SORP 2015 and FRS 102 meant that I gained an in-depth knowledge of the latest reporting requirements, which has been invaluable in assisting many other charity clients to whom these standards apply. It also helped me to develop my presentational and communications skills during the SORP seminar.
2. The review of the grant distribution system helped me to focus on the value to stakeholders generated by charitable funds. Previously I had only considered this area from a creditor/obligations viewpoint, but I now see how important it is for charitable organisations to get the most benefit and value from their funds.
3. The review of overseas donation internal controls helped me see the importance of establishing secure and effective internal controls. It improved my communication and diplomacy skills, as I had to explain in a tactful manner the deficiencies in systems that individuals had designed and used.

My experiences within the charitable sector have covered a wide range of organisations of differing size, internal control and financial ability. I thoroughly enjoy this work as it is very rewarding to assist organisations who are not profit-driven and who are making a positive contribution to their stakeholders' wellbeing. I have also found that it has improved my project management skills as I have led audit teams and project teams to fulfil assignments. It has been highly satisfying to be able to use these skills and knowledge outside of my secular work to volunteer my time and expertise for a local charity and to assist friends of mine who act as trustees.

(Word count, excluding question titles and requirements: 306)

**(Total word count, excluding question titles and requirements: 2,943)**