



Diploma in Charity Accounting – sample script 3: Charity

1. POLICY, LAW AND REGULATIONS (15 MARKS)

1b.

- 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.

Registration as a Charitable Incorporated Organisation (CIO)

When I joined Charity A (turnover £250k, assets £3m), it had begun the process of registering a CIO. The intention was to provide the trustees more protection than the unincorporated charity could, through the limited liability of an incorporated entity. In addition, as the charity also ran a property portfolio, it would also significantly simplify operations as the title deeds could be moved from groups of individuals to the organisation.

It soon became clear, however, that the process had stalled, and that there were some issues to resolve. The immediate concern was that the Charity Commission had raised several formal queries about trustee service agreements, financial relationships with other partner charities and trustee posts within other organisations. I liaised with the Commission through three rounds of enquiries and satisfied all its concerns, some of which required the re-wording of the governing documents originally submitted.

The CIO was then registered, but there remained some hurdles that prevented the transfer of operations. Some of the properties were subject to shared ownership agreements that I advised against taking into the new entity; prior permission from the Commission had not been sought and I concluded that this was unlikely to be granted. During this time, I also began the TUPE process, briefing the charity employees on the contract transfer process (no formal consultation was required because of size).

For strategic reasons, the trustees also decided to change the name of the CIO, so I organised the required governance to achieve this.

The transfer of assets and operations after some delays selling properties and transferring title deeds. I liaised with our solicitor to ensure that the appropriate legalities were satisfied, as well as issuing new contracts to employees and partner organisations. I prepared cessation accounts for the old entity and opening accounts for the new CIO, adjusting comparatives for the in-year transfer of activity.

Finally, the unincorporated charity was removed from the Charity Register, and I archived all the records in line with legal retention requirements. None of the trustees had any experience with this

registration and transfer process, so I provided clear briefings throughout and ensured that they remained confident of their responsibilities. The charity's operation has been significantly simplified, providing a firm foundation on which to expand activities.

Word count, excluding the question titles and requirements: 382

2. RESOURCE MANAGEMENT (15 MARKS)

2b.

- 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.

Work planner

The main activity of Charity B (turnover £1.5m, assets £600k) is the provision of training in relation to palliative and end-of-life care. The restricting factor to this is the available time of the employed facilitators. With the training and experience required, this resource cannot easily be flexed in the short term.

The situation presented two issues:

1. The timing of agreed service contracts meant that the work was often not distributed evenly over the year, leading to periods of operation at under/overcapacity.
2. The lack of a timesheet system meant that hours were not monitored against different contracts, leading to a feeling amongst Directors that we were over-delivering in some areas. It also meant that it was virtually impossible to ascertain the profitability of each agreement, which was especially important when restricted grant funding was involved.

The theoretically ideal option – the introduction of a timesheet system – was deemed unworkable, and therefore the idea of a work planner emerged. Together with a small team of department heads, I led the design and development of a detailed planner, tracking the estimated time of every trainer across all projects over the year. Using financial information, I was able to provide the costs per hour of all employed trainers, as well as an average cost per hour including full overhead absorption across the organisation.

It was agreed that Operations would regularly review the time data and update the estimates, enabling them to plan further ahead and spread the contract time more evenly over the year. I would then cross-reference the time data to the latest actual income and costs from projects, enabling me to report the likely profit/loss of each contract. I also then liaised with those costing potential new work, ensuring that costings were accurate and any agreements likely to lose money were flagged.

I was able, for the first time, to report on the financial performance of each contract. Working with other stakeholders across the organisation and presenting clear figures on costs per hour enabled much more confidence and rigour in the contract process. It highlighted areas of over-delivery and gave trainers a more accurate idea of how long they had to fulfil a contract. It also gave me a much improved basis on which to report restricted fund use, which was approved by the external auditors.

Word count, excluding question titles and requirements: 387

3. FUNDRAISING, INCOME GENERATION AND INCOME DISTRIBUTION FOR PUBLIC BENEFIT (15 MARKS)

3b.

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

Investment property portfolio

In 2021, Charity A sold its base of operations in London and over the next two years invested the £2.5m of proceeds in a portfolio of residential rental properties. The aim was twofold:

1. To generate ongoing income for the charity's activities
2. To offer subsidised accommodation for individuals undertaking work consistent with the objects of the charity.

The purchases were restricted by available properties at the time and the need to retain cashflow. No analysis of the performance of the investments had ever been performed, and the trustees often had to curtail activities through lack of income generated by the portfolio.

I proposed that we undertake a detailed review of the portfolio over the preceding five years, and the trustees agreed. I therefore analysed the rate of return (gross and net) of each individual house over that period, charting the growth in capital value against inflation and comparing the results with regional property averages, as well as other forms of (non-property) investment.

As expected, the results immediately revealed that some investments were performing much better than others. I was then able to discuss with local agents and establish the likely reasons for the differences, as well as consult an architect known to the charity on likely future repairs and development costs. The results also highlighted that the cost of providing subsidised housing was underestimated and not obvious in the charity's internal financial reporting.

Based on the analysis, I was able to propose to the trustees that the portfolio be reconfigured. This included suggested housing types, geographical priorities and future cost considerations, as well as assessing the need for sufficient diversification and the protection of ongoing cashflow.

The trustees were also keen to apply ethical considerations to the investment portfolio. Particular focus was to be given on providing good-quality accommodation that was a positive place to live – a concern for owning properties in areas oversaturated with rentals that prevented local buyers – and assessing the environmental impact of the houses. To accommodate these issues, I drafted a completely bespoke policy to outline the charity's approach to ethical property investing.

The charity adopted both the proposal and policy enthusiastically and over the course of the next three years most of the existing properties were sold and new ones purchased. Each decision was benchmarked against the new policy. As a result of this, the income generated from the portfolio increased by 34%. All houses now have a minimum EPC rating of B and replaced appliances are energy-efficient.

During this process cashflow was maintained and the charity's activities have been able to expand.

Word count, excluding question titles and requirements: 432

4. STRATEGY AND GOVERNANCE (15 MARKS)

4b.

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

Merging charities

In 2021, Charity A began to explore merging with one of its long-term partner charities. It had recognised that there was an overlap in the work of the two organisations and potentially large synergies in combining resources. I attended these early meetings with the remit of providing financial and governance advice, inputting into strategic and operational planning and liaising with specialist legal advisers.

Once we had all established that the charities' primary objectives were compatible, clarified the reasons for the merger and addressed any initial objectives and concerns, the process moved to a more formal phase. I arranged a wider consultation meeting with around 20 people in key roles across both charities. The aim was to establish a clear vision and priorities for the merged entity, so that this could be communicated as the driving factor behind the merger. We also began to consider how everyone would fit into a new structure and how resources would be allocated.

I then took responsibility for enacting the merger. Liaising with our solicitors, I confirmed that there was a strong case for the merger that could be justified to the Charity Commission. Having concluded that our legal structure was best suited to serve the combined charity, I drafted an agreement relating to the transfer of assets, liabilities and activities from the other charity into ours.

I presented the agreement to both sets of trustees and explained what a timeline of events might look like. The agreement was accepted and signed in mid-2023. I enacted the provisions to combine the other charity with our own, and provided support to the other trustee group as they closed the legal entity down.

Throughout the discussions, confidentiality was paramount. We were particular to keep the discussions within a small group until we were ready to make an official announcement so as not to worry the staff of either charity that their jobs might be at risk, especially as I knew that some of those working in Charity A were facing difficult personal circumstances.

The process was energising for all concerned. The collaborative process of working alongside other people and establishing a common strategy gave a new clarity of purpose. The administrative burden was also significantly reduced as only one governance system was needed, releasing some who had been trustees to pursue more active frontline roles.

Completing a successful merger also brought a greater confidence in addressing big structural challenges like these. So, when in 2024 another smaller charity enquired about joining ours, the trustees knew exactly what was possible and once again agreed. I was then able to complete the process in the same way, using the skills and experience established previously.

Word count, excluding question titles and requirements: 447

5. CHARITY ACCOUNTING, AUDITING AND TAXATION (15 MARKS)

5b.

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

Income classification

Charity B, whose primary charitable activity is the provision of vocational training, is not registered for VAT. Staying below the VAT threshold was deemed vital, given that many of our health and care sector clients were also not registered and would not be able to reclaim the additional cost.

However, there were two problems in trying to classify the income for VAT purposes:

1. It was often not clear if the agreement was grant funding (non-business) or a service contract (business). This was not helped by the use of generic sales agreements that didn't make this clear, and some that had changed over time to include increasing numbers of conditions attached to the funding.
2. If it was a business transaction, it wasn't obvious whether the services were covered by the VAT exemption for education and training (VAT Notice 701/30) – some of the specifications sounded very like secondments or consultancy, neither of which is exempt.

Historically, these issues had been addressed by engaging an external VAT consultant every few years to review a sample of contracts for any potential problems. I viewed this as tricky, mainly because it was always retrospective and potentially too late for any remedial action, but also because it wasn't equipping us with the internal expertise to apply VAT guidance. I suggested that we engage the same VAT consultant but, rather than simply review contracts again, that I work with her to produce some bespoke internal guidance for ongoing use, alongside a plan to improve our internal systems and documents. This was agreed by the CEO.

Before the consultant arrived, I conducted some detailed research, particularly reading VAT Notices (eg. 701/30 for Education and Training), HMRC Manuals (eg. VATSC06300 for Grants), as well as ICAEW resources. The results of this process were far-reaching. I was able to prepare the appropriate internal guidance, together with a summary for presentation to other sections of the organisation. I worked with the project management department to build VAT considerations into the early stages of contract negotiations. I also led on the re-wording of our formal agreements so that, rather than a single generic proforma, we established two distinct documents for grant agreements and service contracts. These actions drastically improved the knowledge and confidence to deal with VAT issues in the organisation.

I also took the opportunity to adjust our accounting system so that I could input and therefore report income analysed by VAT treatment. This was then included in the monthly management accounts so that VATable activity could be constantly monitored.

I now regularly look out for any potentially relevant new VAT guidance (eg, Revenue and Customs Brief 10 (2022) on business vs non-business activities), and engage our consultant proactively on technical issues rather than on retrospective reviews.

Word count, excluding question titles and requirements: 460

6. FINANCIAL MANAGEMENT (15 MARKS)

6b.

- 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.

Finance manual

The internal controls within Charity B had grown over time and been recorded in various places. Some were in the original Standing Financial Regulations, some had been added to policies, and some had been written as separate standard operating procedures. There were overlaps and conflicting language, different review timetables, and nowhere was there a full picture of the current system. The operating procedures also took the form of process instructions, rather than focusing on control and segregation of duties. All this meant that conducting a review of internal controls (using CC8 as a template, for example) was very difficult, and increased the risk that areas of weakness would be missed.

Rather than try to update all the different sources, I drafted a new Finance Manual. This combined the existing Standing Regulations and Operating Procedures, and used proformas from other sources (particularly the NCVO) to combine everything into a single document. I attached CC8 Internal Controls as an appendix, including references where a point was addressed by the manual. Anything overlapping with policies was referenced rather than repeated, and any instructions from the procedures were extracted into another operational document.

As expected, the process revealed some areas of weakness. I addressed a lack of control in relation to operating company debit cards by opening a separate card account and reallocating named cardholders. I standardised the process of obtaining and updating authorised signatories, and automated the submission of purchase orders (including exception reporting). As the finance department comprised only two people, I gave special attention to appropriate segregation. This also highlighted the risks of staff unavailability, particularly in relation to online passwords to key accounts, and led to further work on contingency planning.

The new Finance Manual was accepted by the Board and scheduled for annual review. As well as addressing areas of risk previously missed, it gave a much greater degree of confidence in the charity's financial operations. Transparency was improved, the external auditors were complimentary about the robust systems in place, and it led to several efficiency improvements along the way.

Word count, excluding question titles and requirements: 343

TOTAL WORD COUNT, EXCLUDING QUESTION TITLES AND REQUIREMENTS: 2,451