



Diploma in Charity Accounting: Charity - 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 organisation; and
- iii) Explain the action you took to implement the development or comply with it.

Implementation of SORP 2005

As Finance Manager, I was responsible for ensuring that the accounts of the Charity's (annual income £1.8m, assets £600k) complied with the changes under SORP 2005.

In order to ensure I understood the main changes under the revised SORP, I attended two separate training courses on the subject and reviewed guidance issued by the Auditors of the umbrella body.

I applied this learning to our current statutory accounts format. The main areas of change highlighted for my Charity were the clarification of the ability to 'defer income' as set out in Para 104-108 of SORP; and the changes to the format of the Trustees' Annual Report, SORP (Para 41-59).

The revised clarity on deferred income allowed me to reflect more accurately the income of the Charity, which is, in the main, 'contract based' grant funding. I undertook a detailed review of the Charity's income sources to determine which ones complied with the change in policy allowing the income to be treated as deferred as opposed to restricted. The ability to match the 'contract' income in the period to the expenditure was welcomed by my colleagues on the Senior Management Team and the Board, who felt the revised treatment I presented was clearer, giving an easier understanding of the Charity's performance as it had moved away from showing large restricted surpluses and losses in different accounting periods.

In order to implement the changes to the Trustees' Annual Report, I provided the suggested standard outline report template to the CEO and the Finance Committee of the Board and highlighted the areas to be addressed prior to the year end. I emphasised the requirement to report on the 'Achievements and Performance' of the Charity against its objectives and the reporting of the Charity's 'Plans for the Future'. The review of the Trustees' Annual Report also gave me the opportunity to re-emphasise the need for more robust risk management and reserves policies / systems, which continued to be reportable within the Trustees' Annual Report. These recommendations were then taken forward and implemented. Prior to this new SORP, little emphasis had been placed on the Trustees' Annual Report but now it is seen as an important part of the Charity's reporting, which I believe has added to the governance of the Charity.

At the year end, I presented full SORP accounts under the new format to the Charity's Auditors and was delighted to find they didn't require any additional changes.

(Word count 405, excluding question requirements and titles)

2. RESOURCE MANAGEMENT

2a.

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

Restructure of Core Support Services

As part of my role, I was responsible for the core support services of the Charity (finance, HR, IT and administration). Following the completion of a number of overseas projects and the contraction of the Charity's activities, it became apparent that, in order for the Charity to ensure it met its annual budget target, a saving on core costs needed to be achieved.

As part of the senior management team I led a review of the options available and a proposal for a 30% reduction in core staff was made and subsequently agreed by the Board.

My role was then to implement the necessary processes both to reduce the staff numbers and to review the working practices to ensure that the reduced staff resources did not impact on the quality, timeliness or compliance of the support services.

I met with the Human Resources manager to discuss the redundancy and redeployment process. I then developed a timetable for employee consultation, developed new job descriptions and person specifications, led the consultation meetings, interviewed staff and monitored, trained and supported them in their new roles. I drew on the expertise of the HR manager throughout this process.

As a result of the restructure the organisation has achieved a significant annual saving on core staff costs, ensuring that it achieved its budgeted surplus for the financial year. I was also pleased to note that there have been no major impacts on the support services being provided to project staff.

This process presented a major challenge to my skills. I had to learn both the technical aspects of HR and deal with the emotional impact that redundancy has not only on those directly involved but also on the morale of the organisation as a whole. The tight timescales associated with this restructure tested my time management skills to the full! At the end of the process I was praised by the HR Manager for the professional way I had dealt with this difficult situation.

(Word count 329, excluding question requirements and titles)

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

3a.

- i) Describe one marketing, fundraising, income generation or income distribution campaign/strategy at your organisation;
- ii) Explain how you contributed to it; and
- iii) Explain how this benefited the organisation.

European Funding Grant

In 2004 the Charity developed an idea for a Health Project in a new geographical area. There was a need for the Charity to secure funds for this project, both to improve its performance and to meet the targets expected of it in the new Area.

As Finance Manager I was part of the development team to achieve the funding for this project. My role was to work closely with the Development Manager to ensure all the financial elements of the project were completed. The main project funder was to be AB, under 'objective 1'.

I developed a financial 'bid template' to be used by the project. This template consisted of all the direct project spend headings plus those indirect cost headings often overlooked by development staff eg recruitment costs, staff training costs, IT and office equipment costs, and central overhead costs.

I was also tasked with the development of a 'realistic' central overhead recovery charge for the project, which would be acceptable to the funders. In order to achieve this I had to research European rules on eligible and ineligible costs and assess different apportionment methods eg staff time, space occupied etc.

I completed all the financial sections of the European Funding application for the initial submission. Following submission a period of negotiation with the funders was then undertaken. I attended a series of meetings with the funding case officer and development manager. I was required to explain and justify the financial elements of the bid. I produced cashflow projections to prove the organisation's ability to match-fund certain elements of the project. I also had to provide justification of the direct links between the organisation's central costs and the operation of the project.

The project was approved and following this I set up systems to aid the project manager in the financial monitoring of the project.

The organisation benefited from my involvement in the team as follows: the project has run successfully over three years and all its costs have been recovered under the grant; the 'bid template' developed is now in use for all projects being developed; the central overheads charged to the projects are now clear to both project staff and funders and the reputation of the Charity in the new Geographical Area significantly improved.

(Word count 378, excluding question requirements and titles)

4. STRATEGY AND GOVERNANCE

4a.

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

Reserves Policy

In 2006, it became apparent that the Charity was falling short of its annual increase in reserves policy target. I undertook a review of the existing policy (which was basic in content) with a view to producing an updated policy, which would both more accurately reflect the Charity's requirements and also be achievable both in the short and long term.

I consulted with my finance colleagues at the other branches of the Charity and obtained copies of their Reserves Policies. I then set about devising a new policy for those branches.

As part of this exercise I looked closely at our past performance and our budgets for the next few years. I selected a realistic calculation basis to give a reserves target which more accurately reflected the Charity's situation. I then looked closely at areas of activity of the organisation to set some defined processes to achieve the reserves target over the next five-year period.

I produced a report and policy for the Board's consideration. The report included: reasons why reserves were required; the calculation basis for the reserves target; a review of the current position; recommendations of procedures to adopt to reach the reserves target over a predetermined time frame.

The Board accepted the report and policy but had concerns (given past experience and performance) on our ability to meet the annual target. I suggested that the Board could 'task' the Finance Committee with undertaking a regular review of achievements towards the reserves target. The Board agreed to this and I updated the Committee's Terms of Reference to include a reserves review at scheduled points during the year.

The Charity has followed the recommended procedures to reach the reserves target and the Committee has regularly reviewed the achievement towards the target based on the new policy. I believe this revised policy has been instrumental in the Charity achieving its annual reserve target for the past 2 financial years, since its adoption.

(Word count 322, excluding question requirements and titles)

5. CHARITY ACCOUNTING, AUDITING AND TAXATION

5a.

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

VAT Compliance & System Review

During 2004, HMRC undertook a review of the VAT treatment of the Charity. As the Finance Manager, I was responsible for this review at our organisation. The Charity had for a number of years enjoyed a very favourable VAT position of full input VAT recovery, when compared to similar organisations in the sector.

Following the initial review HMRC raised concerns regarding the existing Funding Agreements between the Charity and its main funders., which enabled the full recovery of VAT. They proposed that the Charity should only be allowed to recover input VAT on projects classified as 'business', with an apportionment for overhead VAT recovery. HMRC identified a number of projects that needed to be reclassified as 'non-business'.

I then carried out an assessment of the financial impact of this revised VAT treatment on the Charity. As the grant funding on the projects was fixed, the 'on the ground' implementation' would need to be reduced as costs were now 17.5% higher. I sought advice from XY (our VAT advisors) in order to build a case for retaining the input VAT recovery on the projects HMRC were seeking to reclassify. Using both my VAT and contract knowledge, I worked with XY and produced a report in defence of our case. A period of negotiation was then undertaken where project funding contracts were reviewed by HMRC and the business cases were clarified. During this negotiation, I completed 'Option to Tax' applications on two properties to assist in the overall VAT recovery position.

The final result was that the Charity had to change its VAT recoverability to the new basis of business / non-business apportionment; but, as a result of my negotiations with HMRC, over 50% of the projects classed as non-business originally were reclassified as business projects. The change of basis was also agreed not to be retrospective and not to have to be implemented until the start of the new financial year. This gave the Charity additional time to plan for the financial impacts of the new scheme.

At all stages of this process I provided quarterly updates to the Finance Committee and briefed the main funder Accountants.

Following the new scheme implementation, I used my IT knowledge and reviewed the accounting system, and set up a new regime to record the classification of projects. This allowed me to produce the quarterly reports easily and calculate the overhead VAT recovery apportionment.

(Word count 399, excluding question requirements and titles)

6. FINANCIAL MANAGEMENT

6a.

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

Restructuring of Overdraft / Loan Funding

During 2006 the Charity found itself under increasing cashflow pressure following the losses incurred on an unsuccessful project. The Charity was frequently having to request extensions to its existing overdraft facility, which the bank was increasingly reluctant to do, given the security being held. I undertook a detailed review of the structure of the existing borrowing of a £180k overdraft and short-term loan of £100k.

My review showed the Charity was consistently overdrawn above the level of £150k, and had not been in credit at all in the past 12 months. I also reviewed in detail the assets of the Charity to establish if there were any additional assets available for security – many of the Charity's assets had been purchased with grant funding and were subject to restrictive covenants.

I produced a paper for consideration by the Board which detailed the options of raising a long-term mortgage (£225k) plus a smaller overdraft facility (£100k). The paper drew attention to the risks the Trustees had to assess from taking a longer-term mortgage ie increased overall interest charges, providing additional charity assets as security as compared to the benefits of reducing borrowings over a fixed repayment term and the ability to recover mortgage interest as an eligible cost against grant funding.

The Trustees agreed to the proposal. I then undertook the negotiations of the new facilities with the bank. This included providing financial forecasts and getting asset valuations etc.

The result of the restructuring has added value to the Charity in terms of: a reduced rate of interest on the mortgage compared with the original overdraft rate; the Charity is now often in credit and earns deposit interest, which offsets part of the increased mortgage interest costs; the relationship with the bank has significantly improved as it is seeing a steady repayment of the capital sum.

(Word count 304, excluding question requirements and titles)

7. CONCLUSION

Drawing together your responses to questions 1-6, set out three key learning points from your experience, highlighting skills acquired or lessons learned.

Key learning points

I have detailed my experience from my previous employment, having only recently joined my new employer.

Throughout my 5 years at the previous employer, I was involved in many areas of the Charity's operations, not just the finances. In doing this I feel that I gained valuable experience. I had to:

- a) Develop my technical expertise in order to address a number of complex charity issues i.e. VAT review, HR implications of staff restructure, reserves policy and SORP 2005.
- b) Understand that within the charity sector you have to deal with a number of different audiences, requiring a range of communication and negotiation skills (e.g. Trustees, outside agencies, project staff and funders).
- c) Work closely with other departments in the organisation, ensuring that finance is accepted as an integral part of the Charity's operations and decision-making process.

I am proud of my achievements. As part of the Senior Management Team I helped see the Charity through some difficult situations and it came through as an altogether stronger organisation.

I believe my varied experience I gained in this role has resulted in my recent appointment as the Director of Finance at my new employer . I am looking forward to the challenges this role will bring, drawing on past experiences and lessons learned and applying them in a larger charity context, supporting my finance colleagues within this charity.

Finance in the charity sector is complex and technically challenging. I am continually motivated by these challenges and I hope this qualification will act as recognition of the experience I have gained and motivate me to greater success.

(Word count 266, excluding question requirements and titles)

Total word count 2,403, excluding question requirements and titles