



Diploma in Charity Accounting – sample script 1: Practice

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.

As a charity specialist audit manager, I am aware of Section 13 of the Charities (Protection and Social Investment) Act 2016 (the 'Act'), which requires charities in England and Wales with income of over £1m to provide statements on specific areas of fundraising in their annual report. I am also aware that the Fundraising Regulator published research in July 2022 and updated guidance to support compliance with the reporting requirements in the Act after reviewing the annual reports of almost 200 charities. The research noted that a low proportion of the reports included a statement on how fundraising carried out on behalf of charities is monitored or a statement on how they protect the public and vulnerable donors.

I regularly discuss fundraising disclosures with charity clients at audit planning to ensure their awareness of their reporting responsibilities. One example was in relation to the audit of a large independent school (income £40m, c2,600 pupils). In 2020 and 2021, fundraising activity was largely placed on hold because of the Covid-19 pandemic and the school furloughed most of its Development Office staff. The fundraising statement in its annual report was therefore minimal, with an explanation why this was so.

In the 2022 financial year, telephone fundraising appeals took place to generate new regular donations for the Bursary Fund. There were also large pledges made to development of the campus facilities. This would all need disclosing within the annual report under the Act.

I discussed the fundraising disclosure requirements with the Finance Director, mentioning the updated guidance, and including specific detail of the Act in the Audit Planning Report to aid implementation. As I audit a number of other independent schools, I provided some example statements to the Finance Director, adapting as appropriate. I was especially careful to maintain the anonymity of these other schools, and I checked with them first before sharing their statements. I also made sure that I did not breach any confidences about sensitive information.

Following this guidance, the 2022 annual report explained *inter alia*:

- The fundraising approach (Fundraising is carried out by the Director of Development with support from alumni, parents and friends);
- Details of any fundraising standards/schemes for fundraising regulation to which the charity has signed up (The Fundraising Regulator).

- Whether external fundraising individuals or companies were employed to raise funds (None);
- Whether there were instances of failure to comply with fundraising standards or any complaints received (None); and
- That the School adheres to GDPR regulations and contacts only those for whom its communications will be relevant or of interest. It also follows the Fundraising Code, with policies to protect vulnerable people and the wider public from undue pressure.

I was satisfied that the report was compliant with the fundraising disclosures required in the Act.

Word count, excluding question titles and requirements: 458

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.

An Independent Schools Trust commissioned my firm to review support costs at its 14 schools to identify opportunities (at individual school level and group) to manage costs better and improve use of shared resources.

After an initial fact-finding meeting with Head Office and submitting questionnaires, I began the review by visiting the schools. I interviewed the Bursar and senior leadership team members to understand better how they manage support costs, considering any local/regional variations and opportunities for reducing costs and sharing resources. I also requested (financial and non-financial) data from each school to identify the root causes of variances and any cost-saving opportunities. The data comprised trial balances, purchase ledgers and management accounts, including the SOFA and Balance Sheet. I also collected data on catering arrangements, energy costs, utilities and rates, property and grounds maintenance, transport, cleaning, technology and marketing costs.

I used my knowledge and experience of auditing other independent schools to benchmark these schools both within and outside the group. Once the interviews and benchmarking exercises were complete, I summarised the results, identifying potential opportunities for improved cost management and resource sharing. I fed the results back to the school Bursars and assisted with drafting a report, which was presented by the service partner to the Chairs of the School Finance Committees.

I highlighted that obtaining cost savings and resource sharing was hampered by a lack of a common chart of accounts, differences in accounting for costs (eg, some schools netted off costs with income), differences in staffing (eg, some schools had separate gardeners, site managers and maintenance managers; others had these positions amalgamated into one role) as well as a lack of communication between the schools.

I raised the issue that for the Trust to derive bigger cost and resource time savings, it needed to consider opportunities to procure goods and services by multiple schools, either regionally or as a group. Taking this approach with a lead school for contracts such as IT equipment and minibus purchasing would overcome barriers such as a preference for more costly local suppliers, which most of the schools used. I also identified the fact that some schools had long-established and unduly close relationships with some suppliers, including an instance where work had been given to a business connected with a family member and without a proper tendering process. I discussed this with the client, who understood the concern and took steps to terminate the arrangement.

I also highlighted areas where the Trust could procure at a group level – eg, utilities, IT support – and eventually with shared services such as Finance and HR (but only once relevant processes had been standardised and there was a common chart of accounts).

Word count, excluding question titles and requirements: 447

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 connection with the campaign; and
- iii) Explain how this benefited the client.

One of my charity audit clients (income £5.8m, net assets £5.2m), is a grant maker that collects donations and grants funds to organisations that meet its charitable objectives, as well as carrying out its own projects. One of its objectives is the prevention or relief of poverty through undertaking and supporting research into factors that contribute to poverty and ways to mitigate it. The primary income stream is donations, with Gift Aid used to boost income.

During the 2022 year-end audit, I noted that donations for two months of the year had not been included on Gift Aid claims. This was a significant finding, with donations income (and future cash) being understated. Additionally, I found differences between the amounts recorded on the Gift Aid claim forms and the donations eligible for Gift Aid as recorded as income in the trial balance. The total impact of these findings was an understatement of £90k to income.

Upon further investigation, I noted that the donations data for the Gift Aid forms was collected from a generated IT script that takes data input by the donor via the website and summarises it. The script requires manual input to start, which had simply been overlooked for the two months in question. I also found that reconciliations between these Gift Aid claim reports and the finance system were not conducted as month-end procedures, in the way that I would expect for a charity of this size and nature.

I raised these issues with the Finance Manager (during the audit fieldwork and at the clearance meeting), and with the Trustees, documenting them within an audit findings report which I presented to the board. I recommended that they improve the process of generating Gift Aid claims to ensure that all eligible donations are captured (generating additional income for the charity) by assigning to an employee the job of running the script once a month or creating a script to automate on a monthly basis. I also emphasised the importance of reconciling donations on the Gift Aid forms to an extract of website donations (especially where there are manual processes) and to the trial balance (ideally with a separate preparer and reviewer) to ensure completeness of income. These procedures should form part of the monthly management process.

I followed this up in the next audit and found that all Gift Aid claims for the financial year had been submitted. Additionally, a revised submission process had been created, which improved the frequency of claims being made. This was reinforced by a specific staff member overseeing the Gift Aid function and the Finance Manager doing secondary checks. The client noted that the long-term aim was to automate the process fully.

Word count, excluding question titles and requirements: 449

4. STRATEGY AND GOVERNANCE (15 MARKS)

4b.

- 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.

A large charity (£48m income, £36m net assets) asked my firm to review its governance and board effectiveness, identifying strengths, weaknesses and areas for improvement. It also requested to be benchmarked against similar charities and the Charity Governance Code. The charity provides professional development and educational resources to schools and colleges throughout the UK.

The charity had undergone a period of significant change over the last few years in its board membership, senior leadership and corporate structure. It had also launched a new organisational strategy. The review was intended to take these key changes into consideration.

After meeting the Scoping Panel (Trustees and employees from the executive leadership team ('ELT')) to get an initial understanding of the charity, I began the project by reviewing a number of key documents: Articles of Association, organisational chart, various board papers, draft financial statements, details of subcommittees and their terms of reference, Trustee and executive leadership profiles and risk register.

The next step was to interview the charity's stakeholders to build a clearer picture of the governance structure and processes. I met with Trustees and members of the ELT, as well as Internal and External Audit. I also drafted and issued a web-based survey to senior management and board members, to capture further data on their views on the charity's governance, and attended a full board meeting as an observer.

From carrying out the above, I identified weaknesses in the charity's governance and areas for improvement, which I documented in a report. I benchmarked the charity against each of the seven principles in the Charity Governance Code, noting where gaps existed. I rated the results by highlighting whether the principle had been fully or partly addressed, or not at all, and provided specific and practical recommendations on how gaps could be closed. I added to the report some general themes and observations from the interviews, attendance at the board meeting and the results from the survey.

I presented the report to the board of Trustees. Some high-level examples of key findings included the new strategy needing clearer outputs and KPIs for the board to review in order to measure progress and hold the ELT accountable. Also, the current board subcommittee structures, their terms of reference and delegated authorities needed updating to ensure that they were fit for purpose. The structure needed to drive the delegation and decision-making to impact the provision of information required for committee and board meetings.

The ratings in the report allowed the charity to prioritise the issues identified. It consequently assigned dates to the recommendations on which to follow, to strengthen the governance over time.

Word count, excluding question titles and requirements: 435

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

5b.

- 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.

A large national charity (£70m income) selected our firm to audit its 2022 financial statements. The charity is a grant-maker and exists to change the lives of children and families across the UK. It funds charities and projects that address poverty, physical and mental illness issues.

Grant expenditure was material, totalling £62m in 2022 and 93% of total expenditure (2021: £50m and 84%). Grant commitments were also material, totalling £49m (2021: £56m). From planning discussions, I understood that there were two types of grant commitment, simplified as 'main' and 'small'. Both were awarded to cover three years of funding; however, for 'main' grants, a three-year liability was recognised in full on the balance sheet on the day of granting, whereas for 'small' grants (those under £30k), only one year was recognised. As there is an element of judgement over recognition of grant commitments, and owing to their complexity, we considered this a significant risk of misstatement as a result of fraud.

From discussions with management about the history and practice of paying out grants, I understood that they regularly fund for the full term despite conditions in the contracts. As long as grantees use the funds as intended and meet agreed outcomes, all commitments are paid in full. Evidence of a constructive obligation is proved by an "established pattern of practice" (Charity SORP 7.14), with time always being given to grantees to meet their conditions. On consideration, I was satisfied that the accounting treatment for 'main' grants was appropriate, but remained unclear as to why 'small' grants were different.

I discussed this with the Finance Manager, who explained that when it started offering small grants with three years of payment, the charity did not want to account for the total amount on award, as there was ambiguity over whether it would be paid in full. However, as there is now an established pattern of practice in supporting these smaller projects, paying out all funding over three years with minimal write-offs or clawbacks, I suggested (after conferring with the audit service partner) that the accounting treatment for 'small' grants be aligned with 'main' ones, ie, with the total liability recognised once the grant is awarded. The Finance Manager and Trustees concurred.

As a change in accounting policy, this had to be applied retrospectively with a prior period adjustment to the 2021 accounts and brought forward reserves. The impact on the 2022 accounts was to increase grant expenditure and grant liabilities and reduce opening unrestricted reserves. The accounting policy change and related accounting impact were detailed within the accounts. I marked up the presentational changes and a draft note for the client to tailor, showing how the adjustment should be treated.

Word count, excluding question titles and requirements: 449

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.

A new charity audit client of mine (£5m income, £6m net assets) is a membership organisation. It receives £500k of subscriptions income a year. This income is accounted for in the SOFA when receivable.

To understand the systems and controls in place around this income stream for the audit of the 2020 financial statements, I discussed with management how it is captured, reported and recorded. In doing so, I understood that a proof in total ('PIT') exercise could be performed by building up an expectation of the year-end income recorded in the finance system. This was done (by me) using the charity's CRM database (which is external to the finance system and maintained by a separate administration team) to generate a list of members for the year and their membership type. After adjusting for individuals who were not members through the whole year, I took the fee prices as published on the charity's website and multiplied these by the active members. I made further adjustments for a small proportion of 'gold' members who remained on the membership list for their 10-year sign-up but whose fee is recognised in full in their first year. The PIT exercise was successful, with an immaterial difference of £20k. I also observed the membership data for the period being extracted directly from the CRM system to be satisfied that it was complete and accurate.

I discussed the reconciliation and shared the data with the Finance Manager, who confirmed that this was not an exercise that had been done in the past but that he would look to implement it going forward and would also reconcile the immaterial difference identified.

I also raised the issue in the formal audit findings report, which I presented to the Chair of the Trustees. I recommended that in order to ensure the completeness of subscriptions income in the year-end financial statements (and prevent any possible material audit adjustments), management should prepare a formal reconciliation (monthly and also annually) to compare subscriptions data recorded per the CRM system and nominal ledger, receiving explanations for all reconciling items (normally due to timing differences). As an effective internal control, the reconciliations should further be independently reviewed and approved.

The client carried out a review of their CRM system in the subsequent financial year (2021), and this resulted in approximately 1,500 memberships that were no longer live being de-activated and renewals being activated, which it hoped would generate future subscription income. As part of the reconciliation process, payments were required to be split. Now that this has taken place, monthly reconciliations can be performed easily between the CRM and finance systems.

Word count, excluding question titles and requirements: 437

TOTAL WORD COUNT, EXCLUDING QUESTION TITLES AND REQUIREMENTS: 2,675