STRATEGIC CASE STUDY

Strategic stage

NOTES TO CANDIDATES

i) Answers to be prepared as on 6 September 2022 by Loren Sher, who is on a one-year secondment working as Finance and Projects Manager at the Kiliac Language Council (KLC).

ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

QUESTIONS

1	Prepare a draft report for the KLC Board, addressing a range of governance and management issues following the external audit report issued in April 2022.	65%
2	Prepare a briefing paper for the KLC Leadership Team on the impact of the move to accruals-based financial reporting and whether KLC should make an application to join the associated pilot implementation project.	35%

Requirements for Q1

Requirements for Q1

The Chief Executive Officer (CEO) has asked you to present a report to the KLC Board which meets on 19 September, and wants to review your draft report before it is sent to Board members. Your report should include the following content:

		Marks
(i)	Assess the governance arrangements at KLC, including responses to the issues raised by the CEO regarding the Board in her email of 5 September.	12
(ii)	Critically evaluate the way in which the Audit Committee at KLC is set up and how it operates, including reference to the principles set out in the Linguania Government guidance on audit committees.	12
(iii)	Critically evaluate the options that are potentially available to KLC for the provision of its internal audit (IA) service.	14
(iv)	In light of the findings of the recent external audit report, assess the change management issues facing KLC, and discuss practical options for ensuring that the change management is implemented effectively.	14
(v)	Discuss the approach KLC should adopt to assessing the value for money (VFM) that is achieved from the Type 1 and Type 2 grants that it awards to external organisations, and assess the concerns expressed by those organisations regarding the grant application, allocation and reporting processes and how KLC should respond.	13
		65

Board report further details

EMAIL

From: Sonia Boren, CEO
To: Loren Sher, Finance and Projects Manager
Date: 5 September 2022
Subject: Board report further details

Loren,

I have some further guidance for your report to the Board.

First, I need a critical review of our governance arrangements. This should cover aspects such as the number of members, committee structure, roles and responsibilities, skill sets etc. The interim Chair thinks we need quite a few new members as soon as possible, but I would welcome some analysis of the arguments for doing so, or to keep the size of the Board reasonably small. You should discuss the key issues and priorities for the next round of Board recruitment. Also, please outline proposals for changes to improve the efficiency and effectiveness of the Board and committees.

Second, as well as the overall governance arrangements, the Board requires information on the Audit Committee specifically, so you will need to cover this separately in the report. On that matter, I have just realised that while the Board and I have continued to receive a copy of the minutes of each Audit Committee meeting, since the report on its work in 2020 we have not received an Annual Report from the committee, which in past years has collated the main findings from the year's IA reports into a helpful summary.

Third, your report should include an evaluation of the different options for the IA service, assessing how each option may contribute to an effective IA function for KLC.

Fourth, while the detailed response to the external audit recommendations is being handled by the Improvement Plan Task Force (IPTF), your Board report needs to include an update on their recommendation regarding change management support in order to keep the Board informed about this issue. I am unsure how to respond on this issue and would value your objective assessment. The Board members will also want to know what issues we face in the change management process, and how to make sure that any changes have lasting benefits.

Finally, we need to make sure that we provide VFM in the use of public funds, and the Board have asked for information on how this is best monitored and achieved in respect of the use of Type 1 and Type 2 grants by KLC.

Regards,

Sonia

Internal audit options

EMAIL

From: Petja Dennis, Head of Finance and General Services
To: Loren Sher, Finance and Projects Manager
Date: 5 September 2022
Subject: Internal audit options

Loren,

The CEO asked me to provide some information to help with your report to the Board on the way that the IA function is provided at KLC.

We have received the results from a research exercise I commissioned with a local consultancy firm. They looked at public sector organisations, including ALPBs, and shared the following information regarding their arrangements for IA services:

Arrangement	**Number of organisations**	**Average number of employees in organisation**	**Estimated average annual cost of IA per organisation**
Dedicated IA team within the Finance Department	5	110	£210 000
IA service outsourced to a private sector audit firm	8	85	£45 000
IA role included as part of job descriptions of Finance Department staff	2*	25	£25 000

** Including KLC*

As you can see, there is only one other organisation that operates the IA function in the same way as KLC. On the face of it, though, this seems like an economically attractive option, with the average cost lower than the other approaches.

There may, of course, be other ways of approaching this that are not reflected in the results from this research, so please refer to other options that you consider to be relevant.

Regards,

Petja

Performance measurement of grants

EMAIL

From: Vera Count, Head of Development and Planning
To: Loren Sher, Finance and Projects Manager
Date: 5 September 2022
Subject: Performance measurement of Type 1 and Type 2 grants

Loren,

I am the Leadership Team representative on the IPTF, and the external audit recommendations regarding Type 1 and Type 2 grants are allocated to me to action.

However, I am unsure what exactly we need to do to deal with these recommendations, as I have always felt that we have a robust but simple set of procedures for both types of grant. I would therefore welcome your advice on the two main issues – i.e., the concerns raised about the impact on recipient organisations of our grant awarding and reporting processes, and the design of performance measures to help assess VFM.

The external audit report criticised the absence of clear mechanisms for checking that the money was having a positive effect, but I am not sure what kind of evidence we could ask the organisations to provide for this. I need your advice on the performance measures that we could use. To help with that, in the attached table there are some examples of the kind of grants we give, their purpose, and the organisations involved. Please use this information to give examples of specific VFM performance measures for our grants.

Regards,

Vera

Examples of Type 1 and Type 2 grants

Organisation	2020	2021	2022	Notes
Type 1 grants:				
AA Local Authority	£40 000	£10 000	£10 000	2020 grant provided to support development of the authority's first language plan, with subsequent grants for maintenance, monitoring and reporting on the plan and related activities.
BB Police Authority	£15 000	£15 000	£15 000	Consistent grant for ongoing maintenance of previously developed plan, which is due for review and revision in 2024.
Type 2 grants:				
CC Films	£200 000	£195 000	£200 000	Grant contributes approximately 5% of the organisation's annual costs for development of media content in Kiliac.
DD Kiliac Music and Arts Festival Company	£150 000	£150 000	£155 000	As this is the main cultural festival in Kilia, KLC has supported it financially since KLC was set up. Grant is usually approved by the Board with little discussion, with some inflationary uplift annually where affordable.
Kilia University – Department of Kiliac Language and Culture	£300 000	£300 000	£400 000	Grant is provided to fund a research fellow position and to subsidise language classes for beginners. The level of funding has been consistent over 10 years (with some inflation adjustment). The increase in 2022 is to help fund development of a new Kiliac language resource (which is a three-year project).
EE Community Hub	£25 000	£26 000	£26 500	Grant to support the employment of a Kiliac development officer in the community group, which is a registered charity.

Requirements for Q2

Requirements for Q2

You are to prepare a briefing paper for the KLC Leadership Team, which meets on 14 September. Your paper should include the following content:

		Marks
(i)	Assess the extent to which a move from cash-basis to accruals based financial reporting might be of benefit to KLC.	8
(ii)	Assess the implications for KLC of the Linguania government's guidance for organisations considering applying to join the pilot project for implementing accruals-based financial reporting, and determine the steps that would need to be actioned for KLC to be able to submit a viable application.	12
(iii)	Assess the arguments for and against KLC applying to be part of the accruals-based financial reporting pilot in 2023, and provide a reasoned conclusion as to whether it should apply to be part of the pilot.	9
(iv)	Discuss how the items highlighted by the Head of Finance and General Services in his email of 5 September should be dealt with in KLC's financial accounting and reporting processes when applying accruals-based financial reporting standards.	6
		35

Accruals reporting implementation - assets

EMAIL

From: Petja Dennis, Head of Finance and General Services
To: Loren Sher, Finance and Projects Manager
Date: 5 September 2022
Subject: Accruals reporting implementation - assets

Loren,

I understand that you have been asked to look at the possibility of KLC taking part in the pilot for implementing accruals-based financial reporting in 2023.

From my involvement in private sector accounting and auditing before taking up my present role, I am familiar with the benefits of accrual accounting and its advantages over cash accounting are widely accepted in the accounting profession, and I expect that KLC will benefit from this reform.

As you will be aware, a key aspect of accruals accounting relates to the treatment of non-current assets. As we rent our main offices, we do not have any property assets. We do, however, have lots of IT assets (desktop computers, printers, laptops, smartphones etc), and I would be concerned about having to account for all of these in full under accruals-based financial reporting. I think the Leadership Team will need guidance on whether we need to set up a register for all of these items (there will be dozens of them), and carry out all the revaluation, depreciation, impairment, disposal, etc entries for each one.

The same applies to inventories, as we have fairly large stocks of paper and other office items from time to time. It has been a useful way of keeping to our cash budgets in recent years – i.e., if we are a bit underspent near the end of the year, we can easily stock up on stationery and other small items to make full use of the annual cash budget.

I attach an extract from the recent government guidance to organisations who wish to be considered for selection as an organisation for this pilot project in 2023. I have focused on the items that I think we would need to work on fairly soon if we are to do this properly.

Regards,

Petja

Government guidance on accruals financial reporting pilot

The following points should be noted by organisations who would like to be considered for the advance implementation of accruals-based financial reporting as part of the pilot project starting in 2023. Applications should be submitted by 30 November 2022.

Item	Notes for pilot scheme applications
A pilot project management structure will need to be in place by 31 December 2022.	Applications should describe the project management arrangements, including a project management team, the team's role and the personnel it comprises.
An opening Statement of Financial Position needs to be prepared as at 1 January 2023.	This should be prepared in draft form by 31 March 2023. Applications should describe how the elements of the statement will be prepared, and how data is to be gathered.
Accounting policies should be developed.	Applications should demonstrate that there is a plan for relevant accounting policies to be in place, that they are appropriate to the organisation and comply with relevant financial reporting standards.
Training will be required for finance staff and other key stakeholders.	Applications should include an outline training strategy and training plan for 2023 and beyond.
Risk identification and management during the pilot project period needs to be considered.	The application should set out the key risks related to the pilot and how these are to be mitigated.