CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Strategic Stage

02 September 2020

ADVANCE MATERIAL ONLY

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Country of Domavia

Domavia is a relatively wealthy, democratic country, ranked in the top 30% of countries by gross domestic product, with an economy centred on financial services, telecommunications, agriculture and a small manufacturing sector. During the past 10 years, the Domavian national economy has suffered as a result of a global recession, and government expenditure has been reduced in real terms. There are, however, indications that the Domavian economy has been improving over the past two years and this is expected to continue. The country has a tradition of charitable giving amongst the general population, and ranks amongst the highest in the world in terms of voluntary giving per head of population.

Domavia has three main cities – Achaniar, the capital (population 2 million), Baldeas (population 1.2 million), and Calear (population 0.5 million).

The Domavia currency is the Domavian pound (£), which is equivalent to the United Kingdom pound.

Government policy and international development

The Domavian national government is currently led by the Centrist Democratic Party (CDP), which has been in power for 10 years, though it now has a very small parliamentary majority following the 2019 election. The government has a policy of allocating 1% of its annual expenditure budget to international development aid. A large proportion of this international aid expenditure is given directly to foreign national governments or to multilateral funding institutions, including the Global Development Bank (GDB), an intergovernmental international finance institution which provides loans and grants to the governments of low income countries. The remainder of the international aid budget is managed by the Domavia Development Department (DDD), and the work is delivered through charities of various sizes who are invited by the DDD to bid for grants through a number of separate funds. There has, though, been increasing pressure from the opposition People's Party (PP) to reduce the amount of the national budget allocated to international development in order to alleviate the pressure on other government budgets.

The following DDD funds are open for applications annually, with the next round of applications being reviewed by DDD in the final quarter of 2020 for grants payable from 1 January 2021, which is the start of the government's next financial year:

- The Transform Fund – total fund of £20m, focusing on charitable activities that promote economic development and strengthening of civil society. The maximum grant per project in 2021 is £250 000.
- The Health Improvement Fund – total fund of £50m, for schemes to improve primary health care and sanitation. The maximum grant per project in 2021 is £1m.
- The Equality Fund – total fund of £25m, for projects that improve the lives of marginalised groups, minorities, and other disadvantaged groups, particularly women and children. The maximum grant per project in 2021 is £500 000.

In its manifesto during the general election in 2019, the CDP stated that it would encourage individuals to donate more to charities by simplifying the tax regulations relating to charitable donations, and this is expected to come into law in 2021. Charities are currently able to claim an additional 20% on donated contributions by taxpayers. This amount can only be claimed where the donor has provided suitable evidence that they are a Domavia taxpayer and they have signed a declaration that they agree to the charity reclaiming this amount from the Domavia tax authority. Under this arrangement, if, for example, a donor gives £100 to a charity, the charity is able to claim an additional £20 income from the tax authority, making the donation effectively worth £120.

Concern for Economic Development and Renewal (CEDAR)

CEDAR was founded in Domavia in 2001 to carry out project work in low income countries. It has been most active in the Republic of Vetkaria, where it has delivered several projects, as well as having established close relationships with the Vetkaria national government, non-governmental organisations (NGOs) and private sector partners and contractors operating in Vetkaria.

As a registered charity, CEDAR is required to abide by the reporting and other regulations set out by the Domavia Charity Regulator and the Domavia Charity Statement of Required Practice (SORP). CEDAR is also registered as a company limited by guarantee. The charity has its main office in Achaniar and has a workforce of 45 full time staff. CEDAR's financial year runs from 1 July to 30 June.

CEDAR is governed by a Board of Trustees. All trustees are volunteers and perform a non-executive role in the charity. The Board meets four times a year, and is responsible for setting the strategic direction of the charity. There are 10 trustees in total:

- Chair – Doctor Pat Eliot
- Vice-Chair – Marian Jones
- Treasurer – Philip Riley, a retired member of the main Domavian professional accountancy body
- Seven other trustees with backgrounds in public administration, economic development, higher education and public health.

The charity's Memorandum of Association sets out the formal objectives of the organisation. These include the following:

1. To prevent or relieve poverty by providing humanitarian assistance, promoting education, and providing financial and other assistance.
2. To develop the capacity and skills of individuals in socially and economically disadvantaged communities so that they can be economically active and can participate more fully in society.
3. To promote human rights by various means in the pursuance of equality and diversity, particularly where this contributes to the prevention or relief of poverty.
4. To promote sustainable development, whereby human needs are met without compromising the ability of future generations to meet their own needs.
5. To promote social inclusion by preventing people from becoming excluded from society as a result of being a member of the socially and economically deprived community, meeting the needs of those people who are socially excluded and assisting them to integrate into society.
6. To provide facilities for recreation and other leisure time activity for individuals who need such facilities because of their age, infirmity, disability, financial hardship or social circumstances, with the aim of improving their quality of life.

A senior management group (SMG), consisting of the Chief Executive and three senior managers, meets weekly to review CEDAR's activities, take decisions, and to refer issues to the Board where necessary. The current members of the SMG are:

- Chief Executive – Kezia Mudport
- Head of Finance and Fundraising – Win Taylor (the candidate)
- Head of Projects – Maggie Stelling
- Head of Human Resources – Walter Grandison

In January 2020, CEDAR's Board adopted two new policy documents as a result of new DDD requirements in relation to safeguarding children and vulnerable adults and

bullying/harassment. This followed a series of safeguarding failures in large international charities, which were widely discussed in the Domavian media. These policies came into immediate effect in CEDAR. As well as applying to CEDAR as the main project organisation, the DDD also requires CEDAR to ensure that all of its project partners which are in receipt of project funds also comply with these new requirements by establishing appropriate policies in these areas.

The new CEDAR policy document on 'Bullying and Harassment' included a requirement to ensure that victims of bullying or harassment (i.e. CEDAR staff, trustees, associates or partners) had clear and simple ways of raising concerns, or whistleblowing, to highlight any incidents of alleged malpractice in CEDAR or any of its project partners. This included the establishment of a helpline number for victims to access, and a dedicated email address 'CEDAR_employee_concerns', which is monitored by the Chief Executive's office. CEDAR also sent guidance documentation to all of its project partners to help them get started in developing new policies where necessary, including templates for each policy area with some generic text for partners to adapt as appropriate.

CEDAR takes governance, transparency and high standards of behaviour very seriously, and is committed to ensuring that all partner organisations abide by a similar set of principles and behaviours. In particular, it has a zero-tolerance attitude to fraud and corruption, and requires all partners to commit to this as part of each partnership agreement established at the beginning of a project. The project agreements with DDD also require CEDAR to be open and transparent with DDD, and to notify DDD of any instances where fraud or corruption are identified or suspected.

The Candidate

You are Win Taylor, a newly qualified accountant, who joined CEDAR in July 2020 on a short term contract as the Head of Finance and Fundraising, after the previous postholder left the organisation suddenly due to ill health. You report to the Chief Executive. You manage one member of staff, Lucy Pullet, the Assistant Head of Finance and Fundraising.

CEDAR income

CEDAR has grown significantly over recent years, despite the downturn in the Domavian economy. Gross income levels have improved in recent years, which is largely due to securing greater levels of institutional funding (i.e. grants from government funds and other large bodies).

In recent years, general donations from individuals and from fundraising efforts have also been increasing. Some general donations are from regular donors who provide a similar level of funding each year. The charity also receives some donations in the form of legacies, where an individual has included in their will that a stated amount is to be donated to the charity. These are inevitably one-off donations, but can include significant sums of £10 000 or more.

Income from general donations and fundraising is mainly unrestricted, so the charity is able to use this income to support its core costs (full time staff, headquarters premises costs, general running costs, etc.) and for small project activities. Institutional funds are mainly restricted, which means that it must be applied to the projects for which the funds have been designated.

Commercial income is currently in the form of charity shops, which take donated goods from the general public and sell these goods to raise funds. CEDAR opened its first shop in Achaniar in July 2019 and a further two shops in Baldeas in January 2020 – each shop is of a similar size and located in the city centre near to other retail outlets.

Although the general donations and fundraising income stream has seen some increase in recent years, the Chief Executive has identified this as an area where the charity can improve its performance. She has identified digital fundraising as key to ensuring that CEDAR is able to improve its income levels in a sustainable way. The SMG agreed that a new post of Head of Fundraising should be established from 1 January 2021, with the new postholder to have experience of successful implementation of digital fundraising strategies. This new post, with a budget in the year to 30 June 2021 of £65 000, including salary, on-costs and travel costs (with a full year budget of £130 000), was approved by the Board at its June 2020 meeting. The main objectives for this post are:

- Increasing the uptake of direct debits and standing orders by individual donors and groups.
- Developing strategies for maximising the use of social media to engage with supporters, publicise events, promote fundraising campaigns, conduct urgent appeals, and provide updates on achievements of projects.
- Identifying innovative means of using digital technology to create new income streams or to enhance existing income streams.
- Developing the income raised through the three existing shops and identifying opportunities to open additional outlets and other appropriate commercial ventures.
- Arranging promotions to encourage more donors to name CEDAR as a beneficiary in their will so that a legacy can be donated to the charity after the individual's death.

When the new Head of Fundraising starts, the current role of the Head of Finance and Fundraising will be adjusted and the job title changed to Head of Finance. From 1 January 2021, this role will focus more on financial management, accounting and reporting, with much less direct involvement in fundraising.

Domavia charity regulations allow charities to recognise income from services in kind, such as in the form of supplies that have been donated free of charge, or where individuals work for the charity on a voluntary basis and without being paid. Previously, CEDAR has not included services in kind in its financial statements, but the Board agreed that they should do so for the first time in the 2019/20 financial statements in order to provide more complete information to users of the financial statements. As this income does not involve a cash transaction, it is matched by an equivalent expenditure entry in the Statement of Financial Activities (SOFA), and therefore it has no impact on the overall surplus or deficit for the year.

<u>CEDAR Statement of Financial Activities</u>

Income generated by the charity is reported in its SOFA as restricted or unrestricted. Restricted grant income must be spent on the activity that the donor has stated in its funding agreement with CEDAR. Donations from individuals and organisations may also be categorised as restricted if they result from a fundraising activity that specifies the project(s), or area(s) of activity, that the resulting funds should be applied to by CEDAR. For example, in February 2020, CEDAR raised net income of £120 000 through a comedy festival, and tickets stated that all profits from this event would be spent in support of development projects in the Republic of Vetkaria.

In the charity's SOFA, the 'charitable activities' expenditure line reflects the cost of delivering all of CEDAR's projects. The other main expenditure items in the SOFA are 'raising funds', which represents the costs incurred in fundraising activities, and 'governance costs', which are the allowances paid to Board members and the costs of the annual external audit.

The 2017/18 and 2018/19 SOFAs for CEDAR are shown in Annex 1. The production of the draft SOFA for 2019/20 has been delayed due to staff sickness. It is being prepared by the Assistant Head of Finance and Fundraising, and is expected to be completed shortly before she commences maternity leave in early September.

CEDAR financial management

The Head of Finance and Fundraising is responsible for ensuring that CEDAR's finances are properly managed, including cash management, investment management, and budgeting activities. The annual budgeting exercise is led by the Assistant Head of Finance and Fundraising, Lucy Pullet, and the charity's Finance Manual states that the budget should be presented to the Board for approval by 31 May of the preceding financial year. Due to work pressures related to fundraising activities, especially during April-June 2020, Lucy was only able to provide an expenditure budget prior to the start of the 2020/21 financial year, which was considered by the Board on 19 June 2020. The Board has not approved the expenditure budget because of the absence of information on income levels, and have asked for a full budget to be prepared as a matter of urgency. The summary 2020/21 expenditure budget presented to the June 2020 Board meeting was as follows:

Expenditure	**Unrestricted funds (£)**	**Restricted funds (£)**	**Total (£)**
Raising funds	(2 500 000)	(1 100 000)	(3 600 000)
Charitable activities	(10 000 000)	(10 500 000)	(20 500 000)
Governance costs	(160 000)		(160 000)
Total expenditure	(12 660 000)	(11 600 000)	(24 260 000)

CEDAR's cash position has been reasonably stable over the past 10 years, but an overdraft of £2m was required in July 2019 to fund the acquisition of new premises for its headquarters. The overdraft has been fully utilised during most of the period since the premises were acquired.

CEDAR office accommodation

CEDAR has rented its headquarters in Achaniar since 2014, and has a favourable arrangement with its landlord, which is due to continue under the current agreement until the end of June 2021. The rent paid by CEDAR is approximately 50% of the commercial rent for this type of property in Achaniar. However, due to the charity's expansion, the offices are no longer suitable for its needs, and further premises are being rented in Achaniar on a short term basis, costing £3 500 per month (with one month's notice being required if the arrangement is to be terminated), to store documentation and some inventory.

In July 2019, the charity purchased an office block in the Millside district of Achaniar for £4m (financed by cash and use of the bank overdraft), with the intention of spending £1m on refurbishing it and using it as its new headquarters from July 2021.

Before refurbishment could begin on the Millside premises, another property in Achaniar became available, in Oggs Park. In comparison with Millside, the Oggs Park premises would provide larger office space, additional room for storage of documents and inventory, and a more convenient location for staff (in terms of transport links, access to shops and other local amenities). The Board approved the purchase of the Oggs Park premises, which were acquired for £4m in January 2020 (financed by a 25-year loan). It is estimated that expenditure of £1.5m will be required on the Oggs Park premises before staff would be

able to move into the offices. It is estimated that Oggs Park could be available for use by July 2021 if the required work is started by January 2021.

The Millside premises are currently unoccupied and the trustees have deemed them surplus to requirements. No decision has been taken regarding the disposal of the Millside premises, but the trustees have asked the Chief Executive to provide a recommendation on the way forward to the next Board meeting in September.

Project partner – previous projects

In addition to the 45 members of staff based in Domavia, CEDAR operates in developing countries through local partners. Some partners are engaged for delivery of a single project, while other partners have a longer term relationship with CEDAR.

CEDAR has a major project under way in the Republic of Vetkaria, which is one of DDD's high priority countries for aid-funded development projects. The project is being delivered through a local partner that CEDAR has worked with over several years. The partner, the Vetkaria Empowerment Projects (VEP), is registered in Vetkaria as an NGO. VEP is reliant on CEDAR for a large proportion of its funding, but it also has funding from other donors.

CEDAR first engaged VEP in 2015 as a partner for the delivery of a project funded by the GDB. Before commencing this project, the GDB required CEDAR to carry out a detailed due diligence exercise on VEP to ensure that the partner was a reliable organisation and able to fulfil the requirements of the project. The due diligence was generally positive, and the following risk ratings were provided in the due diligence report submitted to GDB:

- Finance — Moderate
- Management and delivery — Low
- Governance — Low
- Overall — Moderate

The Finance risk rating was linked to various issues regarding the staffing of the finance section of VEP and poor record keeping in relation to cash transactions. Funding from GDB was contingent on improvements being achieved in these areas, and evidence was provided by VEP to CEDAR to show that they had amended internal controls and provided some internal training for staff on financial record keeping and processing of cash transactions. The project funded by GDB was completed in 2017.

CEDAR also worked with VEP on a second project from 2018 to 2019. This was funded by the DDD Equality Fund and was called the Marginalised Groups Project I (MGP I). No further formal due diligence work of VEP was undertaken by CEDAR prior to the start of MGP I as DDD was assured by CEDAR that it was unnecessary to do so due to the previously completed assessment undertaken as part of the GDB-funded project.

Project partner – current project

CEDAR and VEP are now working together on a new project in Vetkaria, which is funded by the DDD Equality Fund and is focused on improving the civil rights of marginalised groups in Vetkaria. The current project is referred to by CEDAR and VEP as Marginalised Groups Project II (MGP II). No due diligence was required under CEDAR's existing procedures for VEP as the project is effectively a follow-on from MGP I.

The project began in January 2020 and is due to be completed in December 2021. DDD have allocated £400 000 for the project, which is made available to CEDAR quarterly in arrears, subject to CEDAR providing DDD with sufficient evidence of expenditure incurred and the delivery of project activities.

CEDAR's project budget for MGP II includes a payment of £20 000 to VEP each quarter. The first quarter's funding to VEP was issued in advance of the project start date to enable VEP to acquire resources to commence project activities. Thereafter, VEP is required to provide CEDAR with a quarterly report before further tranches of funding are released to VEP.

As well as the CEDAR funding, the project agreement requires VEP to raise an additional 50% of funding from local sources as match funding. Failure to generate the match funding may result in CEDAR withholding some or all of the quarterly grant.

Transfers to VEP are made by CEDAR in Domavian pounds, which is converted by VEP's bank into local currency, Vetkarian dollars ($V). Most VEP expenditure is in Vetkarian dollars, a currency which has been subject to significant fluctuation in recent years. CEDAR's project partners are expected to manage any exchange rate fluctuation and any currency gains or losses should be borne by CEDAR's partner. In exceptional circumstances, though, CEDAR may agree to provide additional funding to cover a project partner's currency exchange losses.

VEP has agreed a project budget with CEDAR for the first year of the project, from January to December 2020. During the year, as part of the project agreement, VEP is required to provide quarterly monitoring reports to CEDAR within two weeks of the end of each quarter (i.e. reports to the end of March, June, September and December). The financial information in these project monitoring reports should be stated in Domavian pounds and include (as a minimum):

- An income and expenditure statement, containing budgeted amounts, actuals, and variances for the year to date
- An analysis of any significant variances
- Details of cash balances at the beginning and end of the period.

Under the terms of the partnership agreement, the quarterly monitoring reports should include this financial information as well as narrative information on the NGO's activities and the results achieved. CEDAR also has the right to ask for detailed information on financial transactions, such as copies of contracts, invoices, bank statements, purchase orders and goods received notes.

In addition to providing quarterly reports, VEP as a partner of CEDAR is required to ensure that it has appropriate written policies in place (covering areas such as fraud, whistleblowing, financial procedures, procurement, bullying and harassment and safeguarding), and must make these available to CEDAR on request. All policies must be compatible with CEDAR's own policies; however, some differences in detail are permissible, to take account of local circumstances, differences in national legislation, etc.

The information from VEP on project activities for the period to 31 March 2020 was received on 31 May 2020, but this omitted a narrative report and variance analysis. The only information received was a partially completed income and expenditure statement. VEP's finance manager, Eddy Glegg, apologised for the omission of the variance analysis, but stated in an email that he was confident that the VEP net expenditure situation would be in line with the budget by the end of 2020 as there were a number of fundraising ideas being pursued by VEP for the latter part of the year.

The information received from VEP on 31 May 2020 was as follows:

VEP report CEDAR MGP II project for 1 January to 31 March 2020

	Notes	2020 Budget £	Budget to 31 March £	Actual to 31 March £	Variance
Income					
Grant from CEDAR		80 000	20 000	20 000	
Donations		35 000	8 750	6 200	
Other income	1	5 000	2 500	0	
Total income		120 000	31 250	26 200	
Expenditure					
Staff wages		(62 000)	(15 000)	(14 800)	
Staff allowances		(8 000)	(2 000)	(2 200)	
Supplies		(24 000)	(5 000)	(8 800)	
Transport		(12 000)	(3 000)	(4 100)	
Other expenses		(14 000)	(2 000)	(2 400)	
Total expenditure		(120 000)	(27 000)	(32 300)	
Net income/(expenditure)		0	4 250	(6 100)	

Note:

1. The 'other income' budget is made up of sponsorship (£4 500) and investment income (£500).

In January 2020, CEDAR sent a request to all its partners asking them to provide copies of their policies on safeguarding of children and vulnerable adults and on anti-bullying, harassment and whistleblowing. As many of these organisations are small and under-resourced, they were given until 30 June 2020 to arrange these. VEP responded in July, stating that exploitation of children and bullying of staff are clearly against the law according to Vetkaria legislation, and that there is therefore no need for VEP to spend time on any additional policy documents on these topics.

Under the terms of the project, CEDAR is answerable to DDD for the funding provided to VEP, and CEDAR may withhold grant payments if VEP are not complying with all partnership agreement requirements.

Annex 1

CEDAR Statement of Financial Activities for year ended 30 June 2018

	Note	Unrestricted Funds £	Restricted Funds £	Total funds £
Incoming resources				
Donations, grants and legacies	1	11 512 810	3 212 710	14 725 520
Investments		12 600		12 600
Total income		**11 525 410**	**3 212 710**	**14 738 120**
Expenditure				
Raising funds		(1 736 998)	(422 100)	(2 159 098)
Charitable activities		(8 448 420)	(3 803 206)	(12 251 626)
Governance costs		(89 600)		(89 600)
Total expenditure		(10 275 018)	(4 225 306)	(14 500 324)
Net income/(expenditure)		1 250 392	(1 012 596)	237 796
Other gains/(losses)	2	2 500		2 500
Transfers between funds	3	(1 000 000)	1 000 000	0
Net movement in funds		252 892	(12 596)	240 296
Reconciliation of funds				
Total funds brought forward		2 641 914	150 000	2 791 914
Total funds carried forward		2 894 806	137 404	3 032 210

Notes	Unrestricted Funds £	Restricted Funds £	Total funds £
1. Donations, grants and legacies			
Donations	8 910 200	1 275 300	10 185 500
Grants	1 400 000	1 600 000	3 000 000
Legacies	50 200		50 200
Tax reclaimed	1 152 410	337 410	1 489 820
Total	11 512 810	3 212 710	14 725 520

2. Other gains/(losses)
This relates mainly to transactions involving non-current assets.

3. Transfers between funds
Domavia charity regulations do not allow CEDAR to have a negative balance on restricted funds, and transfers are made from unrestricted funds when required to maintain a positive balance in restricted funds.

CEDAR Statement of Financial Activities for year ended 30 June 2019

	Note	Unrestricted Funds £	Restricted Funds £	Total funds £
Incoming resources				
Donations, grants and legacies	1	11 405 097	6 590 302	17 995 399
Investments		15 250		15 250
Total income		**11 420 347**	**6 590 302**	**18 010 649**
Expenditure				
Raising funds		(1 725 950)	(874 400)	(2 600 350)
Charitable activities		(9 607 400)	(5 804 280)	(15 411 680)
Governance costs		(105 200)		(105 200)
Total expenditure		(11 438 550)	(6 678 680)	(18 117 230)
Net income/(expenditure)		(18 203)	(88 378)	(106 581)
Other gains/(losses)	2	(4 500)		(4 500)
Transfers between funds	3	(50 000)	50 000	0
Net movement in funds		(72 703)	(38 378)	(111 081)
Reconciliation of funds				
Total funds brought forward		2 894 806	137 404	3 032 210
Total funds carried forward		2 822 103	99 026	2 921 129

Notes	Unrestricted Funds £	Restricted Funds £	Total funds £
1. Donations, grants and legacies			
Donations	8 525 700	2 425 300	10 951 000
Grants	1 800 000	3 700 000	5 500 000
Legacies	27 350		27 350
Tax reclaimed	1 052 047	465 002	1 517 049
Total	11 405 097	6 590 302	17 995 399

2. Other gains/(losses)
This relates mainly to transactions involving non-current assets.

3. Transfers between funds
Domavia charity regulations do not allow CEDAR to have a negative balance on restricted funds, and transfers are made from unrestricted funds when required to maintain a positive balance in restricted funds.