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International Planned Parenthood Federation

Audit update report to the Finance, Audit and Risk Committee on the 2020 audit

Issued Date: 12 February 2021 **Meeting Date:** 26 February 2021

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Partner introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our audit update report to the Finance, Audit and Risk Committee for the 2020 audit.

This report reflects an update on accounting and reporting requirements and sector developments. The key messages from our report are:

Introductions and building our relationship

Following the retirement of Reza Motazedi in November 2020 I am pleased to have been asked to be the new partner on the International Planned Parenthood Federation ("IPPF") audit and I look forward to working with IPPF.

I place open and transparent communications at the heart of our relationship. We will meet regularly with the finance team and Finance, Audit and Risk Committee and build a trusting relationship.

I look forward to presenting this paper on 26 February 2021 and providing a verbal update on the audit progress to date.

Changes in scope

Following the interim we have revised the audit scope in relation to valuation of the Investment Property and also consulted with respect to the Nexus project. Additional information is set out on page 19.

Changes in accounting and reporting requirements

Whilst there have been no significant developments in the charities sector since our last report to you which we would like to highlight, the revised ISA 540 will have an impact on our work performed in relation to accounting estimates and related disclosures, and the revised ISA 570 will have an impact on our work performed in relation to going concern. Additional information is set out on pages 4 – 7.

Craig Wisdom
Partner

ISA 540 Revised

Auditing Accounting Estimates and Related Disclosures

- Driven by changes in financial reporting frameworks and standards including a greater focus on complex accounting estimates (effective periods beginning on or after December 15, 2019)
- Recurring inspection findings by regulators around auditing accounting estimates highlights the importance of fostering professional scepticism
- Improving communication and transparency between auditors and those charged with governance/regulators on complex accounting estimates

Differences under the revised standard

- Expectation to see **enhanced** risk assessment procedures
- Emphasis on **understanding the entity and management's processes and controls** relative to accounting estimates
- Emphasises the auditor's exercise of **professional scepticism** and evaluation of potential management bias
- **Scalability** of work efforts – design and execute audit procedures based on the complexity of accounting estimates
- Expands requirements to **address disclosures around accounting estimates**, documentation requirements and discussions with those charged with governance

Impact on management and audit team

- Greater focus in assessing how management understands the nature and extent of, and the risks associated with, accounting estimates.
- Greater focus in understanding management's processes and controls around accounting estimates.
- Varying procedures to drive work efforts based on assessed risk levels including consideration to adopt a control reliance approach to auditing accounting estimates
- More interaction between management's experts and the auditors.
- Requests to provide more specific written management representations regarding the appropriateness of the methods, significant assumptions and the data used in making the accounting estimates and the related disclosures

Communication with those charged with governance

Enhanced dialogue on accounting estimates, which may include:

- the auditor's views on the significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures;
- the auditor's assessment of indicators of management bias;
- the auditor's assessment of the appropriateness of management's methods, assumptions and data used and;
- the auditor's assessment of significant deficiencies in internal controls around accounting estimates

ISA 540 Revised (continued)

Impact on IPPF’s accounting estimates

In all cases, our risk assessment procedures will include updating our understanding of the transactions that give rise to accounting estimates in the financial statements, regulatory factors impacting these estimates, and the controls in place in relation to these estimates. Consideration will also be given to both inherent and control risks arising.

Accounting estimate or judgement	Impact on our audit approach	Impact on Trustees and management
Classification of funds	We will consider any changes to the methodology used by management in assessing the classification of funds. We will review these underlying assumptions to determine that the classifications are consistent with the requirements of the Charity SORP.	**Trustees** In the course of our reporting, we may communicate any perceived management bias within accounting estimates or deficiencies in the controls discussed with management and observed in our audit testing. At the conclusion of the audit, more specific written representations may be included in our letter of representation regarding the method used (e.g. significant assumptions made, data used in the relevant models). **Management** In all cases, there has been greater focus at the planning stage on understanding management’s processes and controls in these areas, including the extent of any risk assessment undertaken. In addition, more interaction between management’s experts (e.g. pension scheme actuaries) and the audit team is likely to arise as we seek to understand and evaluate the inputs to more complex or judgemental areas of the financial statements.
Pension scheme valuation	The methodology used by management (and management’s expert) in determining the scheme’s valuation will be reviewed for any changes to the prior year. We will make use of our pensions Centre of Excellence to determine if the underlying drivers of these calculations (such as actuarial assumptions) are out of line with expectation or suggest any evidence of management bias; we will also review the disclosed inputs to the scheme to determine that the disclosures are consistent with the method outlined.	
Investment Property valuation	The methodology used by management (and management’s expert) in determining the charity’s investment property valuation will be reviewed following the 2020 valuation. We will make use of our Deloitte Real Estate Team to determine if the underlying drivers of these calculations (such as comparable sales) are out of line with expectation or suggest any evidence of management bias.	
Valuation of investments	Based on the nature of the investment and publically available or third party information, we will consider the degree of estimation uncertainty attached to the asset’s valuation; any related disclosures about estimation uncertainty will also be considered by the audit team.	

ISA 570 Revised

Going concern

The Financial Reporting Council (FRC) issued a revised going concern standard in September 2019, that takes effect for periods commencing on or after 15 December 2019.

The revision was made in response to recent enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

"The revised standard means UK auditors will follow significantly stronger requirements than those required by current international standards."

FRC's press release, 30 September 2019

Area of change	Impact on our audit	Impact on the Trustees and management
Risk assessment procedures and related activities	Our consideration of going concern at the planning stage of the audit has included more detailed consideration of your business model, operations and financing, including: • IPPFF's environment • SORP reporting requirements • IPPF's system of internal control • IPPF's risk assessment process • IPPF's business processes.	You will need to consider the adequacy of your processes and controls over the Group's going concern assessment, including at the subsidiary level, and documentation thereof. You should also expect more granular inquiries regarding the going concern assessment process.

ISA 570 Revised (continued)

Going concern (continued)

Area of change	Impact on our audit	Impact on the Trustees and management
Evaluation of management's assessment	We will: • evaluate management's method to assess going concern, including any changes from the previous period, and mathematical integrity • evaluate the relevance and reliability of the underlying data • evaluate the assumptions on which the assessment is based – including consistency with each other and related assumptions used in other areas • evaluate plans for future actions • consider whether any additional facts or information have become available since the date management made its assessment.	You should expect more detailed inquiries from the audit team relating to the going concern assessment, even where IPPF's financial position, performance and prospects are strong. You will also need to prepare a clear articulation of future plans for the Group, and we will request written representations concerning their feasibility.
Enhanced professional scepticism requirements Evaluation of sufficiency and appropriateness of audit evidence	We will evaluate whether events or conditions give rise to a risk of management bias in the preparation of the financial statements. There is a new stand-back requirement to consider all relevant audit evidence obtained, whether corroborative or contradictory, and any indicators of possible management bias.	You should expect more challenge of the evidence provided in support of the going concern assessment.
Considering the appropriateness of disclosures	We will consider whether the disclosures are not just adequate in the context of the applicable accounting framework, but whether they are appropriate.	Expect more challenge on the appropriateness of disclosures, considering all the factors described above.

Charity Commission updates

Charity Commission updates
Coronavirus (COVID-19) pandemic

The Charity Commission for England and Wales guidance to help with running your charity during the coronavirus (COVID-19) outbreak was last updated on the 6 November 2020. This page is regularly updated to provide additional guidance for charities, and assurance that the Commission's approach to regulation during this uncertain period would be as flexible and pragmatic as possible in the public interest, whilst helping trustees to be aware of and think about the wider or longer impact of their decisions on their charity. The latest updates give further guidance on virtual meetings and legal considerations around holding AGMs.

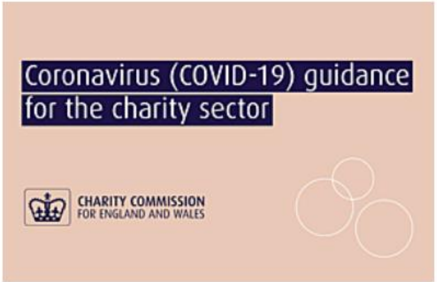
Guidance on the government funding response to COVID-19 is also maintained on the Deloitte website. This has been updated to cover the extensions to the coronavirus job retention schemes and extension amongst other government support.

The Charity Commission reminds those charities wanting to help that they must first consider whether that help is within their charity’s existing charitable objects.

Specific guidance for charities and trustees on the accounting implications was also issued on 23 March and can be found on the SORP microsite.

This includes considerations around going concern and the disclosure of post balance sheet events.

Trustees may also find the guidance published by the Financial Reporting Lab of the Financial Reporting Council in October 2020 which updated some of its earlier work useful. The two short guides (COVID-19 – Resources, action, the future and COVID 19 – Going concern, risk, and viability) highlight the importance both of providing specific assumptions around going concern scenarios and about integrating the impact of COVID-19 into their principal risks rather than dealing with it in isolation.



Charity Commission updates(continued)

COVID-19 – going concern

The Charity Commission published guidance on the 23 April which can be found at https://www.gov.uk/guidance/manage-financial-difficulties-in-your-charity-caused-by-coronavirus to support trustees with some basic practical steps to maintaining and monitoring the going concern status of the charity, the main point being that trustees must always consider the best interests of their charity, which may include merging or working with others. More guidance is available from the FRC with good practice advice on reporting published in October 2020 in COVID-19: Going-concern, risk and viability – a look forward.

Trustees should remember when considering their funds that whilst they have discretion over general and designated funds they may need approval from the donor to re-purpose restricted funds. If a charity is considering accessing permanent endowment assets, Charity Commission agreement should be sought.

If either:

- the scale of financial loss threatens the charity's ability to operate and serve its beneficiaries; or
- the charity's financial reserves or other measures are not sufficient to cover the losses;

the trustees should use the serious incident form to report this information to the Charity Commission.

Trustees should expect additional challenge from auditors on going concern as the new auditing standard on going concern (ISA 570) is applied. Further detail is provided on pages 6 – 7.

Charity Commission updates (continued)

COVID-19 – going concern (continued)

Current financial situation

- Cash flow management
- Commitments
- Available cash
- Likely receipts

Minimising costs and protecting income

- Stop non-essential outgoings
- Alternative ways of operating
- Reallocate staff
- Team with other charities
- Government support
- Local partnerships
- New grants or loans
- Can designated or restricted funds be used?

Regular review

- Robust, frequent monitoring
- Keep the cash flow forecast current
- Identify trigger points for both a return to a more normal operating environment and should the need to close become more likely

Sector developments

Sector developments

Off Payroll Working changes

- Continued area of HMRC and government focus.
- IR35 rule changes due to be implemented in April 2021 for the private sector, following their introduction in the public sector in April 2017.
- There has been a recent update from the Government regarding the definition of an ‘intermediary’ for IR35 purposes. HMRC has conceded that the proposed definition of ‘intermediary’, could unintentionally capture umbrella companies as well as situations where employers are seconding employees. HMRC’s statement clarifies that “the off-payroll working rules are intended to apply to situations where there is no employment or agency worker relationship between the worker and the client or an agency or other third party in the labour supply chain, and the worker’s services are provided through their own intermediary”.
- A technical change to the off-payroll working rules will be made in the next Finance Bill. This will ensure the legislation operates as intended from 6 April 2021 for engagements where an intermediary is a company. The change will correct an unintended widening of the definition of an intermediary, which went beyond the intended scope of the policy.
- Importantly, the draft legislation incudes an exemption for “small” companies. Organisations should therefore consider whether they qualify for this exemption.

Sector developments (continued)

National Minimum Wage/National Living Wage ("NMW/NLW") compliance

- NMW/NLW compliance continues to be a significant area of financial and reputational risk for employers in this sector.
- Following the Government's acceptance of the Low Pay Commission's ("LPC") recommendations to increase the NLW to £10.50 per hour by 2024, the Chancellor has confirmed that the NLW will rise to £8.91 per hour from 6 April 2021. The age at which workers will be eligible for the NLW will also reduce from 25 to 23.
- In October, the Department for Business, Energy and Industrial Strategy ("BEIS") published a report on HMRC's enforcement of the NMW law, following concerns from employers of unintended consequences of the way regulations are drafted and interpreted. The report seeks to clarify entitlement to the NMW/NLW, as well as HMRC's policies on civil and criminal enforcement. The report also contains several links to pages explaining the calculation of the NMW and states that the prior conduct of the employer will be considered in any enforcement of the NMW/NLW rules.
- We previously noted that the NMW implications for carer "sleep ins" had been considered by the Supreme Court. The Supreme Court heard the appeal on the 12 February 2020 but it is not yet known when they will publish their decision. In light of the recent pandemic, it may still be many months before this is published.

Sector developments (continued)

Remote/homework expenses

- There is an exemption (under s316 ITEPA 2003) for items which are:
  a) provided for the sole purpose of enabling the employee to perform their employment duties; and
  b) b) any use for the employee's private purpose is not significant.
- The exemption is intended to cover office furniture and equipment, stationery and other similar supplies provided to employees. However, the exemption only applies to the provision of these facilities by the employer, and not to the reimbursement of expenses. Reimbursed expenses would be taxable unless covered by the exemption under s336 ITEPA 2003.
- Where s316 ITEPA 2003 does not apply, relief would then only be available under s336 ITEPA 2003. For expenses to qualify for deduction under s336 ITEPA 2003 the "wholly, exclusively and necessarily incurred in the performance of duties" criteria must be met.
- HMRC consider an employee's expense for home office equipment only "puts the employee in a position to perform their duties, and is therefore not incurred in performance of their duties". As such no deduction can be claimed by the employee for home office equipment under s336 ITEPA 2003.
- Lastly, where an allowance is paid to employees under a formal home working arrangement, an exemption is available under s316A ITEPA 2003 for £26/month. This only applies to payments made by the employer and cannot be claimed as deduction by the employee.
- During the pandemic however, HMRC accepts that formal home working arrangement conditions will be met to apply to payments made by employer, but also that an employee deduction can be claimed for these additional household expenses under s336 ITEPA 2003. HMRC has confirmed that the £26/month is available in full, even if an employee splits their time between home and office.

Sector developments (continued)

UK Immigration rules – 1 January 2021

- The EU-Exit transition period ends on 31 December 2020 and with it, EU free movement. In it's place, a new immigration system will apply to both EU and non-EU citizens coming to the UK from 2021. This will have a huge impact on UK business and the way that employers manage their recruitment and talent strategies.
- From 1 December 2020, the new UK points-based immigration system was launched and any business wishing to hire international talent from this date will need to engage with the new immigration system and new visa routes. EU, EEA and Swiss nationals who are not yet resident in the UK will require working permission to enter the UK from 1 January 2021.
- Under the transition period, EU, EEA and Swiss nationals who are living in the UK as of the end of 2020 must apply under the EU Settlement Scheme by 30 June 2021. Any EU, EEA and Swiss nationals who have not been living in the UK by 31 December, will fall under the new points-based system.
- UK nationals living and working abroad under existing EU rules and health insurance coverage (EHIC) will also be affected. Generally, UK nationals residing or arriving within the EU before 31 December may be guaranteed residence and freedom of movement under the Brexit withdrawal agreement but in most cases will still be required to register with the appropriate local registration office before 31 December and complete the appropriate filing by 30 June 2021. UK nationals who enter after the transition period will be treated more like other third-country nationals.
- Deloitte, together with the Confederation of British Industry (CBI), have developed a practical guide to navigating the new UK immigration system and help employers understand the steps to be taken if employing migrant workers from 1 January 2021.

Sector developments (continued)

Remote Working/”Virtual Mobility”

- COVID-19 has caused major disruption to “business as usual” combined with a significant displacement of personnel globally. Organisations need global oversight of their remote workers to ensure compliance obligations are met. At the same time, there is pressure on organisations to develop a longer-term strategic approach to remote working
- Remote working can have an impact on your organisation’s tax, social security and immigration profile. And can generate significant employment law risk.
- Identifying remote worker cases as soon as possible is essential to enable the business to assess and action any mandatory compliance obligations. It will also allow employers to identify increased and unbudgeted costs and document decision-making/policy exceptions.
- Development of a remote working policy that covers guiding principles, how compliance is managed and overview of the reward structure and benefits is high on the agenda for many organisations as remote working becomes further entrenched in our new ways of working.
- Deloitte have developed a simple tool to help organisations identify their displaced/remote workers, enabling subsequent triage and a focused assessment and action plan for cases to be prioritised and potentially remediated. Using these insights, Deloitte can assist organisations to develop a remote work policy, process and governance model to implement long-term remote working.

Appendices

Fees update

Since we presented our audit plan in October there have been changes in the scope of work that have required us to perform additional work, including the use of specialists. These are summarised below with an update of our expected fees:

	2020 Fee per planning report £	Scope increases	2020 Fee update £
Audit fees by location:			
London	85,000	4,000[1][2]	89,000
Brussels	16,600		16,600
Nairobi	16,600		16,600
Delhi	14,800		14,800
Bangkok	13,700		13,700
Kuala Lumpur	9,500		9,500
Tunis	5,500		5,500
Total	**161,700**		**165,700**

[1] Management requested that we consider the accounting treatment of the Nexus project. Due to the complexities and judgmental nature of the accounting we have had incurred time, including consultation with technical specialists, over and above what would normally be incurred for a typical audit related accounting query.

[2] Following discussion we had during our interim audit, management have had a formal revaluation performed on the Investment Property in line with the accounting policy. Given the judgemental nature of this kind of valuation, our audit approach requires us to use specialists to support us in the audit of this revaluation which is in addition to the normal scope of work we have performed in previous audits.

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