

**Agenda Item: Financial Update**

**Summary:**

Under IPPF Regulation E.1.b) the Finance, Audit and Risk Committee (C-FAR) met on 28<sup>th</sup> July 2022. The Committee provided oversight and policy direction relating to the following key areas:

**Review and took note of:**

- a) Financial update for the five month ending 31st May 2022;
- b) Q2 financial forecast (5+7) for the balance of the year.
- c) All fraud incidents recently closed and those ongoing ending 15th July 2022
- d) Update against the internal audit plan for 2022 and agreed on the priorities presented.
- e) Safeguarding and incident management report for the quarter 2 of 2022 and
- f) Safeguarding and incident management report for the month of June 2022
- g) Short term investment plan presented by Treasury springs.
- h) Triennial valuation of the defined benefit pension scheme for IPPF London.
- i) Proposed strengthening plan of the treasury management system at IPPF.

**Approved:**

- a) The minutes of the previous meetings held on 18th May 2022
- b) Investment mix for the long term investments as presented by Morgan Stanley

**Action Required:**

1. The Board of Trustees Note the Report submitted by the C-FAR Chair
  2. On recommendation of the C-FAR, the Board of Trustees to consider and approve
- a) Closure of DG Emergency fund with a balance of circa US\$ 219k.
  - b) Updated strategic risk register
  - c)

In attendance:

- C-FAR members: Elizabeth **SCHAFFER**, Chair, C-FAR  
Bience **GAWANAS**, Treasurer, IPPF & Member, C-FAR  
Judith **MAFFON**, Member, C-FAR
- Staff: Varun **ANAND**, Director – Finance & Technology  
Nisha **GOHIL** (note-taker)
- Internal auditor: Mark **SULLIVAN**, Risk Assurance Director, RSM Risk Assurance Services LLP
- Joined for the relevant agenda items: Vanessa **STANISLAS**, Head of Safeguarding
- Unable to attend: Lakshan **SENEVIRATNE**, Member, C-FAR  
Maisarah **AHMAD**, Member, C-FAR  
Nicolette **LOONEN**, Member, C-FAR, however she sent her comments and questions on all the papers.
- Alvaro **BERMEJO**, Director General

**1. Welcome and Introduction.**

Liz welcomed everyone to the meeting and advised that the meeting did not have full quorum attendance with only three C-FAR members in attendance. She informed that although Nicolette was unable to attend, she had shared her written comments and questions on each item in advance of the meeting today.

Varun advised that given pressures on time and calendars, that the meeting proceed and that he would send any decisions taken by the committee to the other members and get them to sign off.

The committee members present agreed to the proposal noting that Nicolette comments and questions on each item will be included in the discussions.

**2. Agenda # 2 - Procedural Items**

**2.1. Apologies for Absence**

Varun shared apologies for absence from Lakshan, Nicolette and Alvaro. Maisarah too was unable to join the meeting.

**2.2. Draft Agenda and Timetable**

The committee reviewed the agenda and no comments on or updates to the same.

**Action:** *The C-FAR members adopted the agenda*

**2.3. Minutes of the Finance & Audit Committee Meeting**

The committee was asked to review and approve the minutes of the previous meetings held in May. There were no further comments and thus the minutes were approved unanimously.

**Action:** *The C-FAR members approved the minutes of the previous meeting held on 18<sup>th</sup> May 2022*

## 2.4. Matters Arising

There were no matters arising.

## 3. Finance Update as on 31<sup>st</sup> May 2022 and Quarter 2 Forecast Budget

### a) Financial update for the five month ending 31st May 2022

Varun gave a high-level presentation of the numbers regarding the management accounts for the five months to 31st May 2022. He informed that IPPF is:

- Ahead of the budgeted income by USD\$16.5M. This is contributed by unrestricted core income of US\$ 5.5M and restricted income US\$ 11.0 M.
- Behind the budgeted expenditure by USD\$21.2M. This is contributed primarily by unrestricted core and designated funding. The underspending on the unrestricted core side was due to delayed submission of deliverables by MAs, lead to delayed release of funding to them. This has been the trend for the last few years and thus in 2023 we will look at changing these timeline issues so that the management accounts reflect the reality rather than an aspiration of payments.
- Overall we are USD\$35.8M ahead of the budget deficit.
- On the reserve side as the bulk of our core grants come in in the second half of the year, we cover our working capital deficit, through our general reserves. In this context, our current reserves are at USD\$18.7M, slightly below the threshold level (USD\$19-US\$26M) as decided by the committee. These funds will be replenished back as soon as we receive our core grants for the year.
- Our projected cash flow remains positive throughout the year.

Nicolette commended both the quarterly forecast and the management accounts papers and had expressed she was happy with the details included in them.

There were no further comments or questions from C-FAR.

### b) Q2 financial forecast (5+7)

Varun presented the Quarter 2 forecasted numbers to the committee. The numbers included in the paper were actuals for the first five months and the projected income and expenditure for the balance seven months of the year.

- The projected deficit has reduced from USD\$28.5M to USD\$22.7M. This is contributed by increased net surplus under restricted projects by US\$ 6.8 M and net deficit under unrestricted core and designated about USD\$60k and US\$ 1.0 M.
- Under unrestricted core side:
  - Core grant income has been reduced by US\$ 6 M to account for the impact of strengthening of US\$ and increased the other income by USD\$1.5M, with a net reduction of USD\$4.5M.
  - On the expenditure side the Consortium Grant has been reduced by 1.95 M in line with the projected amount being tendered out, salary savings has led to a reduction of budgeted expenditure by US\$ 1 M, funding required to funds and centres has been reassessed to a lower amount by 1.18 M and projected funding to high income countries has been reduced by around US\$ 0.5 M. On the other hand circa 0.2M has been allocated to setting up a new office in Abidjan.
  - The net impact of the changes provided above is \$0.06M.

- On the designated funds, the SMT approved a drawdown from the solution 7 fund of USD\$1M to support planning and budgeting and the MA Dashboard work.

As on the date of the previous presentation we were carrying a risk of Norwegian and the Swedish governments freezing their core grants. However we have now been informed that Norway has lifted that freeze. We are in close contact with the Government of Sweden so that we can ensure minimising the risk on that front. The total amount frozen is circa USD\$6M. This is likely to be decided sometime in September.

Bience thanked Varun adding it was good news to hear about Norway. I am hopeful that Sweden will follow suit.

Liz thanked Varun for an excellent outline of the forecast. She highlighted that the forecast process is a good one as it keeps the committee fully informed not only about the actual numbers but also the forecasted numbers for the rest of the year. She did acknowledge the stress this creates, especially as of now, given the significant resource challenges with the Finance department. She put on record her appreciation of the effort put in to generate this report.

c) Closure of DG Emergency fund

Varun presented an action item which I was going to raise, on the emergency fund. He highlighted that historically, the humanitarian response funding was drawn down as a DG Emergency Fund and utilised from that during the year. However now that we have a separate stream (stream 3) allocated just for the humanitarian response, the management recommended closure of this fund, which amounted to circa US\$ 219k. This has been signed off by the Director General.

Bience thanked Varun for the explanation, she had a worry that there were no alternative source of funding if this closed. She said now she was happy with the recommendation.

The committee members present were unanimous in agreement.

**Information Item:** *The committee take note of the following:*

- a) Financial update for the five month ending 31st May 2022;
- b) Q2 financial forecast for the balance of the year

**Action Item:** *The Committee to take note of and recommend for approval to the Board:*

- c) closure of DG Emergency fund to the Board of Trustees

#### **4. Fraud Incident update ending 15<sup>th</sup> July 2022**

Varun shared an apology from Neville with the C-FAR as he was unable to attend, given he has been quite unwell and required hospitalization. We are hoping and praying that he comes out fast.

The committee members expressed their concern and asked Varun to convey their best wishes for Neville's speedy recovery.

In his absence Varun presented high-level notes on the fraud paper which Neville had shared. These included:

- Continued efforts to build the capacity within the Secretariat. This will help in improving our immediate response convincing donors that IPPF has the capacity to take on those investigations as far as possible.
- Framework agreements with many vetted forensic auditors in Africa region signed off – enabling speedy responsiveness to any allegation. Reduced time taken to deploy auditors from up to six months to two weeks from the time of receipt of allegation.
- Significant worrying trends both in Africa and the Arab world in terms of whistleblowers raising concerns, but then not following through either in meetings or bringing more evidence, which leads to a lot of time and money getting spent. Neville is exploring the option to clearly communicate with the donors (early enough) what IPPF thinks about the allegation and the evidence that have been presented, so that donor expectation are managed.
- A summary table has been added at the end that provides expected losses in each of the fraud cases. Another column will be added to include the cost of investigation in each of these cases.

Nicolette enquired as to how such a large magnitude of fraud of circa USD\$4M took place in Liberia, despite such strong assurance mechanisms already in place. She enquired was this before or after the restructuring at IPPF? Varun informed the committee that the fraud was discovered back in 2018 and investigation was started in 2019/2020. Mark confirmed that it was around 2020 not long after RSM joined IPPF as their internal auditors.

Mark added that one of the reasons it's taken so long to finalise the Liberia report, is due to the poor quality of the original forensic audit. He added that there is also some doubt over the size of the fraud. He concluded by stating that there will be fraud cases that keep coming up, but hopefully through the proactive measures that are being put in place in the global assurance and the internal audit and the investigations that are happening, the chances of these cases being of this magnitude diminish.

Bience asked Varun if he could explain the issue of the whistleblowers and allegations that are being made. Varun responded that this could be a little bit of history in IPPF that is playing out because both these regions have had their own challenges. Giving an example, he stated on receipt of a complaint when the global triage team, enquires about the basis of complaint, and requests for some evidence, rather than providing any evidence the complainant sends additional allegations. Both the original and the new allegations along with the evidence presented may not corroborate, however IPPF still will be required to audit the whole matter. He further highlighted that sometimes the individual complainant does not come on the phone at all or respond to emails. In any of the cases, IPPF has to constantly follow through, and we've had cases where there is nothing that has come out of either the evidence or in terms of the allegation, itself. Which speaks of some amount of malaise in the system.

Varun, went on to state that it is expected that this is what IPPF will have to deal with for the next few years till things start to change completely. However, in the mean-time it will take a huge amount of time and effort from the Secretariat staff.

Bience asked to weigh the seriousness of the allegation against the cost of the investigation, so she suggested that this is an area that IPPF should pay attention in the future. At the same time, IPPF must always look at investigations not only proving the allegation, right, but also proving it wrong for the person against whom the allegations are made.

Varun agreed.

At the Secretariat level Mark highlighted that as part of the internal audit of the Africa Regional Office, a staff questionnaire was issued, classed as a confidential questionnaire. A number of people contacted the RSM team to make sure that it was confidential and in doing so they raised quite a number of issues as part of that questionnaire. The issues raised, were included as part of the audit testing to try and confirm if these were correct or were these just malicious allegations. One of the benefits of the staff survey is that staff felt like they were being listened to by an external body on something that had to be looked into and in effect, diffused from a whistle blowing allegation. We are planning to do the same for other offices across IPPF Secretariat with a view then that it might minimize the number of whistleblowing, but at the same time it will help for next year's plan and also help wider on understanding some of the key themes of what people feel from a governance perspective.

Liz responded that this will still be an internal audit which is different from a whistle blowing complaint. And it's about changing the culture about people coming forward without it rising to the level that we consider it a serious fraud allegation. But really, people are pointing out the things that they see that are potential weaknesses in our internal structures and allow things to happen so that we can then change those and then not have the fraud incidents and the whistleblower type activity.

**Information Item:** *The Committee took note of all fraud incidents recently closed and those ongoing ending 15<sup>th</sup> July 2022*

## 5. Updated Strategic Risk Register

Varun gave a brief overview of IPPF's key strategic risks and mitigating actions. He highlighted that there were broadly two changes that were brought in:

1. Remove the risk related to the global pandemic.
2. Added some updated actions against the mitigation actions we had listed in the March register.

Nicolette requested that henceforth this register should come in a format that the committee members can identify and focus on the changes. Varun apologized to the committee as the paper was not kept in track-mode. He confirmed that the next time the paper to be presented to the C-FAR members will be clearly highlighting the changes being suggested.

Liz thanked Varun, saying that this is really moving in a great direction. She highlighted that it is such a strong approach and a strong document. She hoped that the committee will recommend it to the Board as requested. She also requested that going forward management prepare and include a summary/ brief highlights in the beginning of this document, to enable the committee to understand the changes quickly, rather than going through the whole document which is 23 pages long.

Varun agreed and noted the request.

There were no further questions and C-FAR agreed to take the paper forward and recommend to the Board.

**Action Item:** *Review and recommend approval of IPPF's new strategic risk register to the Board of Trustees.*

## 6. Internal audit plan

Liz requested that Varun lead the committee through the next two items whilst she had to take care of some matters at home, for which she would need to switch off her camera. She confirmed that she would continue to engage in all the discussions.

Mark started by stating that reasonably good progress was being made against the internal audit plan, although there were some delays partly through availability of people and the resource implications. He presented the following updates:

- The Arab World governance report completed and finalized. This report complements the forensic audit work currently being undertaken by PWC, on the request of the international donors. As part of this donors wanted a consideration of some of the governance issues and whether there had been improvements made over the period of time from the previous regional director to the current regional director. The baseline was taken based on findings of the financial review undertaken by IPPF. The same areas were retested to identify whether the improvements expected had actually happened. The key findings included:
  - Significant progress is being made.
  - Some procedures developed are currently in conflict with standards that IPPF has, and is considering rolling out across the secretariat.
  - Some documented procedures did not cover the actual processes in practice.
- The Africa internal audit report draft has gone to Neville for review. Given his illness, RSM has written to Alvaro to find a way to progress that report and start implementing the recommendations made within it.
- Two additional audits are planned over the balance of the year. These include:
  - looking at delegated authority and the new processes that are being developed and how they are embedded into NetSuite; and
  - preparing the East and South East Asia and Oceania Region (ESEAOR) Office internal audit review. Expected to start around September/October subject to pre-analysis.

As Mark dropped out, due to technical glitches, Varun highlighted the priorities that Neville had shared on the internal audit:

- Prioritize closure of the Africa Regional Office audit. Neville was happy with the results of the staff survey that Mark had highlighted, and was keen to roll this out across the secretariat.
- Prioritize a similar internal audit review for the East South East Asia Oceania office.
- Audit of the delegated authority and update the delegation of authority document.
- One area of concern he highlighted was the Secretariat's inability to respond to action taken reports. Mark had advised that there is a delay in the action taken report, mainly due to capacity issues. In this context, Neville felt that the number of Secretariat audits could be reduced; or only high priority recommendations be reviewed for the action taken report – so that these could be prioritized.

Mark joined back. He thanked Varun, adding that his team was trying to work around people's availability and do things that did not require much input from other secretariat staff (like looking at the delegation of authority document and also its implementation in NetSuite). He further highlighted that audits already highlighted above as the priority. For the action taken report he stated that the team is prioritizing the high priority areas only. He highlighted that so far only 4 out of the 51 management actions have been implemented, and one has been

superseded. He stated that he will aim to present the findings of the actions taken by each audit so that the committee has a clarity on areas that are getting less traction.

Liz thanked Mark, raising the point that some of the capacity issues that IPPF is facing are going to remain because they are sector-wide, and it is going to be difficult for IPPF to get fully staffed. She highlighted her discussion with Varun about this. IPPF has some key positions open and it's not going to be easy to get those individuals recruited and onboarded and so she noted the serious risk associated with this. She requested suggestions from Mark on what should be done, to address the 51 recommendations.

Mark agreed, adding that this is a decision for management as to whether or not it wants to run with the risk that's attached to those recommendations. He noted the request, and whilst reviewing the action taken report the team will review evidence presented in support of the management actions and work out a strategy with the management on how to address the recommendations in order of the priorities listed. He further highlighted that some of the high priority recommendations could be easily implemented regardless of the resource implication, because they were relatively straightforward. For example, things like reconciliations relating to procurements and supply chain.

Varun asked Mark that once he has undertaken the analysis of all the recommendations and analyzed which ones have not been actioned, that his team and Mark's team, sit together and work out a strategy on some of the ones that have not been actioned and if there is any support required which we need to bring in the interim, because as Liz said, IPPF has just had terrible luck in terms of building that capacity, and that seems to be continuing across the sector, so we need to find interim solutions to address these issues rather than just park them as pending. It was agreed that Varun and Mark will have a discussion offline separately to move this forward.

Bience asked about the capacity constraint. She highlighted that this is an important year as IPPF moves towards the General Assembly (GA). Some of these issues on audit and financial controls were extensively discussed at the last GA and these may come up again, so she hoped that RSM and the management team works out something that the BoT can confidently say that these matters are being dealt with in line with their anticipated risk and likely impact. On the issues of prioritising actions, Bience highlighted the need to develop a clear criteria on how are recommendations identified high, medium and low priority. Varun explained the process followed on tagging the recommendations as high, medium and low which are finally agreed between RSM and the management and agreed to by the C-FAR too. All were happy with the response provided.

Mark added that IPPF is going through a very challenging environment, and it's a complicated organization, so naturally the internal audit process needs to take all the above points into account, when we come out with recommendations and there prioritisation.

Liz asked whether the final report has a timeline for implementation for each agreed item? Because that is where the capacity issues may come into play. We might find that some of these are actually urgently important and high risk, and we may not have the staff to implement them promptly. Which is the risk of being understaffed? I think that is perhaps where you can guide the committee and make some and update us accordingly.

The above recommendations were noted and agreed to.



Liz thanked the committee, adding that we will follow up with the Members who were absent from today's meeting and be assured that we have full quorums for all of the actions that were necessary, including Nicolette's written comments which will be reflected in the Minutes.

*Information Item: Reviewed and took note of update against the internal audit plan and agreed on the balance of priorities for 2022.*

## **7. Safeguarding and Incident Reports**

- a) Safeguarding and incident management report for the quarter 2 of 2022 and
- b) Safeguarding and incident management report for the month of June 2022

Vanessa presented highlights from the two reports shared with C-FAR:

- 248 cases cumulatively received since the system went live in 2018, with 202 of those cases closed to the end of June. That is 81% of the live load closed to date.
- Some sticky cases; and a few old cases that IPPF has struggled with and those are having extra scrutiny to ensure these cases move faster.
- Of the backlog cases IPPF has reduced the number down by 29% in the last quarter and now there is a backlog of 10 cases open. Of these only seven can actually progress, because three of them are waiting for action external to IPPF.
- Audit management actions are progressing , though a little slow, some of that now because Neville is off, which will be addressed internally.
- Training on Safeguarding. Completed training of trainers in all of the MAs in ESEAOR but one; and all of the MAs in SARO but one; so, the work is starting to spread. There are now more than 3000 people that know about safeguarding as a result of the work that we have done.

Bience thanked Vanessa very much for the presentation, congratulating the team on the great progress being made, and the safeguarding training that the staff have undergone, which is critical in terms of taking this forward. There is some concern about the old cases still open: at what point should these cases be closed; and does it not bring challenges in terms of the new cases that you also have to handle at the same time.

Vanessa thanked Bience for her question. Of the 10 backlog cases that remain open at the moment, there are three of those that cannot be actioned because they are pursuing court action. Of the seven actionable cases, we have three cases that are safeguarding relating to MAs. We continue to try and capacity build for and support our MA's around case management; and provide guidance and documents if it's requested - because that is our duty as a Secretariat, to support and guide, but not to direct and instruct with the exception in the case of fraud. With financial wrongdoing, we have a different input there for obvious reasons, but with the other cases, our MA's are independent organizations who are responsible for taking forward the cases themselves.

There are no cases that are live on safe report backlog or current that are not receiving prompt and regular oversight and scrutiny. We are doing everything we can to make sure those cases move to conclusion.

Judith questioned what the results of the cases that were closed: have they been substantiated; unsubstantiated; or have we lost or won? Vanessa presented a slide to C-FAR showing all the reports that were received between December 18 and the 30th of June this year. Of those cases that are not safeguarding cases, so all other cases except safeguarding - 32% of those cases were

substantiated and 45% unsubstantiated. And of the 22 safeguarding cases we've received to date, 61% of safeguarding cases were substantiated and 17% unsubstantiated

Liz thanked Vanessa for a wonderful slide asking that a similar visual should be incorporated into the materials shared with C-FAR. Vanessa agreed and confirmed that the results slide data will be included in future reports so that C-FAR can see the data in a different way.

There were no comments and the committee thanked Vanessa for her presentation.

**Information Item:** *The committee take note of the following:*

- a) *Safeguarding and incident management report for the quarter 1 of 2022 and*
- b) *Safeguarding and incident management report for the month of April 2022*

## 8. Any other business

Varun brought the following to the CFAR's attention and agreed that all the papers will be shared with the committee members soon after the meeting:

1. Short-term & Long-term investment - The Committee had previously decided to go ahead with Morgan Stanley and Treasury Springs for short term and long term invest. Both proposals have now been received.

Proposal received from Morgan Stanley for long term investment relating to IPPF:

- a. relates to circa US\$ 1.6 million dollars that IPPF holds on behalf of Cape Verde and
- b. is in line with the decision taken by the committee on going with Morgan Stanley for long term investment.

They have provided a proposal which is a mix of equity (60%) and fixed term investments (40%)

Proposal received from Treasury Springs for short term investments relating to IPPF:

- a. relates to cash that IPPF holds in multiple currency. As mentioned, we are working both with our forex dealers and also Treasury springs (who provided this investment platform) to identify the best possible investment and forex conversion strategy.
- b. This is in line with the decision taken by the committee on going with the platform provided Treasury Springs for short term investment.

IPPF is hopeful, that it will be able to generate a little more money on funds available on its bank accounts as interest rates have gone up, and the Fed has just increased the interest rates by another .75 basis points, which means more returns on fixed term investments.

2. Defined Benefit pension scheme triennial evaluation - the defined benefit pension trustees, evaluate our covenant and also assess the requirement for payments to the pension fund for the next three years. The key points from the proposal to highlight are:
  - Our covenant was rated 'strong' instead of tending to be strong last time round.
  - Our liability was assessed to be much lower than last time round.
  - Given the increased gilt rates the liability has become even lower however as the equity markets have not fared well, the assets too have slightly devalued, however the net result is still more favorable than on the date of the valuation.

This has already been reviewed and signed off by Nicolette and also shared with Alvaro. After the meeting I will share the proposal via email with all CFAR committee members, for any questions or comments, before we go ahead with signing off the evaluation and move ahead with funding for that scheme.

The above papers were shared with the committee members after the meeting. An approval was received for the long term investment strategy as presented by Morgan Stanley above. There were no further comments on any of the other papers.

Liz and Varun thanked everyone for their valuable contribution to the meeting.