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International Planned Parenthood Federation

DRAFT Audit Findings Report

Year ended 31 December 2022

Presented to the Finance, Audit & Risk Committee on 25th May 2023

Audit / Tax / Advisory / Risk

Strictly Private and Confidential

Finance, Audit & Risk Committee
International Planned Parenthood Federation
4 Newhams Row
London
SE1 3UZ

Dear Members of the Finance, Audit & Risk Committee

I have pleasure in submitting our audit findings report for the year ended 31 December 2022. The primary purpose of this report is to communicate to the Finance, Audit & Risk Committee and the Trustees the significant findings arising from our audit that we believe are relevant to those charged with governance.

I look forward to discussing our report with you, as well as any further matters you may wish to raise with us.

I would like to take this opportunity to express our appreciation for the assistance provided to us by the finance team and the other staff at the charity during this year's audit.

Yours sincerely

Nicola May
Partner

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1. Executive summary

Our report to you

We are pleased to present our Audit Findings Report to the Finance, Audit & Risk Committee ("C-FAR") and we welcome the opportunity to discuss our findings with you at your meeting on 25th May 2023.

The primary purpose of this report is to communicate to the C-FAR and the Trustees the significant findings arising from our audit that we believe are relevant to those charged with governance.

In accordance with International Standards on Auditing (UK) the matters in this report include

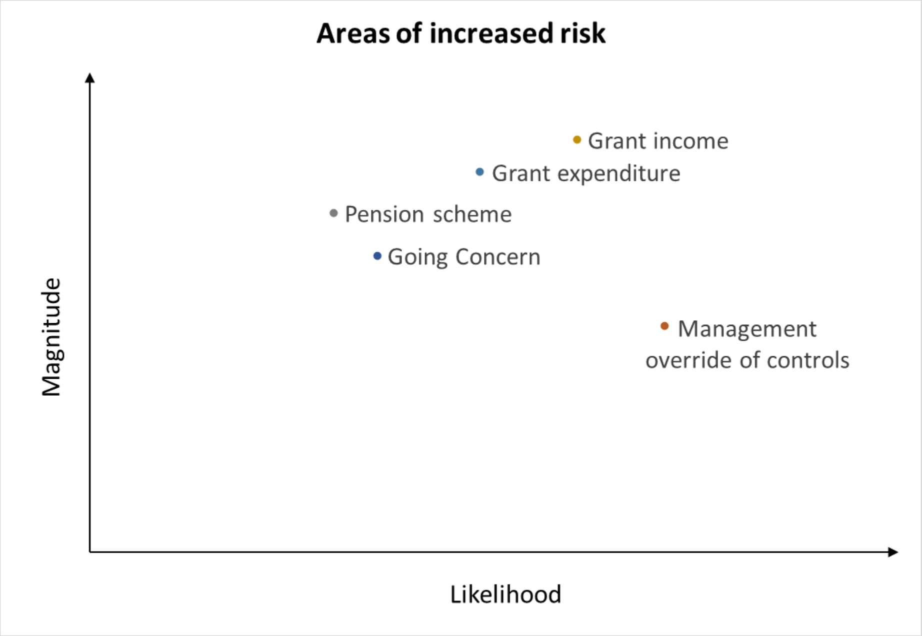
• the results of our work on areas of significant audit risk
• our views about significant qualitative aspects of the group's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
• significant difficulties, if any, encountered during the audit
• any significant matters arising during the audit and written representations we are requesting
• unadjusted misstatement identified during the audit
• circumstances that affect the form and content of our auditor's report, if any
• any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention.

Conclusions in relation to the areas of significant audit risk

Section 2 sets out our comments and findings on the significant risks we identified at the planning stage. As explained in our Audit Planning Report, in line with ISA (UK) 315 (Revised), we have considered the inherent risks, including the likelihood and magnitude of a potential misstatement.



In line with our audit plan we focussed our work on the significant audit risks identified:

- Going concern
- Revenue recognition – grant income/accrued income
- Grant expenditure/liabilities
- Estimates and judgements – Pension liability/asset

- Management override of controls, including through journal adjustments

The results of our audit work in these areas is set out below:

Significant risk	Control deficiency identified	Adjustment(s) identified	Other reported matters
Going concern	✗	✗	✗
Revenue recognition – grant income/accrued income	✗	✓	✓
Grant expenditure/liabilities	✗	✗	✓
Estimates and judgements – Pension liability/asset	✗	✗	✓
Management override of controls, including through journal adjustments	✗	✗	✗

Other audit findings

Section 3 sets out various comments on other important matters which we have identified from our audit.

Fraud and irregularities

Section 4 sets out the Trustees and our responsibilities in respect of fraud and irregularities.

Audit materiality

The audit materiality for the financial statements set as part of our audit planning took account of the level of activity of IPPF and was set at 2% of income. We have reviewed this level of materiality based on the draft financial statements for the year ended 31 December 2022 and are satisfied that it continues to be appropriate with 2% of income being £2.4m.

We set separate audit materiality levels for each of the group's subsidiary entities. Details of these separate materiality levels are set out in Appendix 3.

Unadjusted misstatements

We report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be 5% of our audit materiality.

There are no unadjusted misstatements we have identified as set out in Appendix 1.

Audit completion and our Audit Report

We have substantially completed our audits in accordance with our Audit Planning Report which was sent to you and the senior management team on 6 December 2022, subject to the matters below.

- Completion of the going concern and post-Balance Sheet events reviews.
- Review of the final financial statements.
- Receipt of the signed letter of representation (Appendix 4).
- Grant income work – clarification of treatment and figures for 11 grants from a sample of 27 (Section 2.2).
- Review of Africa Regional Office grant income adjustment workings and disclosures (Section 2.2).
- Grant expenditure work – clarification of figures for 10 items from a sample of 34 (Section 2.3).
- Finalisation of work on journals – clarification around 3 journals tested in detail (Section 2.5).
- Payroll work – reconciliation of payroll for two offices and finalisation of work on payroll disclosures (Section 3.2).
- Final internal audit reports from RSM for the African Regional Office and East and Southeast Asia and Oceania Regional Office review (Section 3.3)
- Receipt of remaining bank confirmation letters (Section 3.6).
- Review of funds note – updated disclosure note and cross-checking to project spend (Section 3.7)

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from progressing these outstanding matters.

On the satisfactory completion of these matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the 2022 financial statements.

Responsibilities and ethical standards

We have prepared this report taking account of the responsibilities of the Trustees and ourselves set out in Appendix 5 of this report.

The matters included in this report have been discussed with the charity's management during our audit and at our closing meeting on 21 April 2023. Varun Anand (Director of Finance and Technology) and Janice Venn (Director, Financial Management) have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

2. Significant audit risks

As reported in our Audit Planning Report, ISA (UK) 315 (Revised) was applicable this year, and required us to consider a spectrum of inherent risk, considering both the likelihood and magnitude of a possible misstatement, with risks close to the upper end of the spectrum of inherent risk considered to be 'significant risks'.

Risk is considered in the context of how, and the degree to which, inherent and control risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

In addition, the auditing standards also set out a number of areas considered to always be a significant risk. Our audit response in respect of risks not identified as significant is set out in Section 3.

We have commented below on the results of our work in these areas as well as on any additional significant risks, judgements or other matters in relation to the financial statements of International Planned Parenthood Federation ("IPPF") identified during our audit.

2.1 Going concern

Key related judgements

In preparing the financial statements to comply with Financial Reporting Standard 102 the Trustees are required to make an assessment of the charity's ability to continue as a going concern.

In assessing whether the going concern assumption is appropriate, the Trustees and management are required to consider all available information about the future of the charity in the period of at least, but not limited to, twelve months from the date when the financial statements are approved and authorised for issue.

The trustees' going concern assessment is a key area of emphasis and importance for our audit and, in accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern.

Due to the potential impact of exchange rate fluctuations on IPPF, trends of government cuts to international development funding and the current financial resources available to the charity, we consider that going concern is a significant risk for our audit.

We also understand that IPPF implements its new strategy to 2028 from 2023. Although the core activities of the charity remain unchanged a change in strategy increases the risk and uncertainty, as well as posing new challenges when it comes to budgeting and forecasting financials during a transitionary period.

Crowe response

Trustees may consider and take account of realistic mitigating responses open to them, considering the likely success of any response. We have discussed this with IPPF management and explained that our work on going concern included the following:

- Reviewing the period used by Trustees to assess the ability of IPPF to continue as a going concern,
- Examining budgets and forecasts prepared by management covering the period of the going concern assessment to ensure that these appropriately support the trustees' conclusion,
- Reviewing the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year, and
- Reviewing any other information or documentation which the Trustees have used in their going concern assessment.

Our conclusions and other comments

Management have provided us with a going concern assessment that incorporates the budgets and cashflows to December 2024, which we have reviewed as part of our audit. This going concern assessment incorporates sensitivity analysis comparing three scenarios; worst case, most likely and best case. Key conclusions reached by management:

- IPPF has multi-year agreements with key donors for both restricted and unrestricted funds and so the income pipeline for 2023 and onwards remains strong.
- Most of IPPF's unrestricted core donors have had a long and strong relationship with IPPF. Through all the ongoing engagements there are no signs of change in their relationship with IPPF.
- IPPF's projected cash flow position across all funding sources demonstrates a positive balance throughout this period.
- IPPF has additionally earmarked designated funds to cover costs relating to its strategic initiatives that support acceleration of delivery in specific areas of its strategic framework.

As at 31 December 2022 IPPF group is reporting unrestricted funds totalling $68.3m (2021: $69.6m). The IPPF financial statements are reported in USD, however its largest funder is the Foreign, Commonwealth & Development Office ("FCDO") of the UK government that provide funding in GBP. Due to the movements in exchange rates at the end of 2022 IPPF incurred significant exchange rate losses during this period arising from the timing differences of payments and receipts of income.

The cash balance at year end (including cash held as investments) is $80.8m (2021: $96.6m). The IPPF results include the Worldwide Inc (WWI), Africa Regional Office (ARO) and European Network (EN) subsidiaries.

It is budgeted that the unrestricted income from donors in 2023 ($60.8m) will in line with that of 2022 ($60.8m). Unrestricted expenditure is forecasted to be $62.8m which gives a projected deficit of about $2m. This has been taken as a conservative estimate as many income sources were not included at the time of the budget.

We understand that the new strategy has not posed any significant issues with regular funders and existing contracts and the income pipeline of unrestricted income is strong. Of the core funding for 2023 42% is contracts, 29% has been awarded but not signed for and the remaining 29% is currently waiting confirmation. Donor contracts with the governments of Australia, Denmark, Hewlett, Netherlands, and New Zealand have been signed off, representing over 30% of total core funding. There are a number of multi-year contracts that are due to end within 2023 however we understand that negotiations with these donors have been positive and commitments have been confirmed but management are awaiting formal agreements to be drafted and signed.

From a cash flow perspective, the forecast has been carried out right through to December 2024 with average cash balances being $55m. The cashflow incorporates additional $6.9m of designated expenditure in 2023.

Based on the assessment, we understand the Trustees are satisfied with the disclosures in the financial statements and satisfied for the IPPF financial statements to be prepared on a going concern basis. We will be seeking representations that the Board has considered the forecasts and is satisfied that the going concern basis is appropriate.

2.2 Revenue recognition – grant income/accrued income

Key related judgements

IPPF's largest source of income comes from institutional, governmental, public or multilateral bodies. In 2022 this income totalled $119.2m (2021: $163m). The significant fall in income is largely due to a number of projects ending in 2021 and the WISH2Action project coming towards an end in March 2023. Although a number of these agreements were renewed the level of funding often reflects the level of work done. Therefore, at the start of the multi-year agreements there is often less funding received. Income was also impacted by foreign exchange movements. As discussed in Section 2.1 IPPF receive a large portion of money that is not USD. With a strengthening USD throughout 2022 ,in comparison to other currencies and in particular GBP, the amount of reported income in USD is lower.

In certain cases, if grant income is not properly managed then the risk of claw back is high with the risk that the income is not correctly accounted for in terms of its allocation to specific funds.

Income is not always received in line with the entitlement to the income in accordance with the Charity SORP and therefore there may be a requirement to defer or accrue income. There may also be performance criteria attached to the grants received which would impact on the establishment of entitlement to the grant.

Given the complexities within the recognition of grant income, we considered there to be a significant risk in respect of completeness and cut off on this income stream.

Crowe response

Our audit work included the following:

- reviewing IPPF's income recognition policy in relation to grant income;
- reviewing IPPF's procedures for identifying restrictions and conditions;
- reviewing levels of grant debt held at the year end and investigating aged donor debts for instances of dispute and/or withheld funding;
- reviewing the findings of any grant audits requested by donors;
- scrutinised funding agreements so as to understand income recognition, terms, reporting requirements, and claw back risk; and
- reviewing clawbacks that occurred in the year and assessed whether provisions for further clawbacks were required.
- considering the controls and procedures in place to ensure that income received in the field is correctly accounted for so as to mitigate against the risk of double counting, omission or cut off errors.

Our conclusions and other comments

Grants are composed of two types; performance related grants (such as the Wish2Action funded by the Foreign and Commonwealth Development office) and non-performance related grants (funded by institutional government departments and other large private donors). These grants are either to fund unrestricted core spending or restricted projects.

For performance related grants like the Wish2Action project, income is recognised in line with progress against key performance indicators and milestones achieved by IPPF, as well as reimbursable expenditure incurred by the Member Associations. We obtained the quarterly reports prepared by the consortium of partners who report to IPPF to agree the income recognised.

For non-performance related grants, income is largely based on a cash receipts basis underpinned by payment plans set out in the grant. Whilst this is not an acceptable income recognition basis under the Charities SORP, as noted in the prior year, the grants themselves are based on budgets prepared in advance of the agreement, and therefore clear time restrictions are in place, upon which the income recognition is based.

We reviewed a sample of grant agreements to ensure restrictions on grants are appropriate and the income recognition policy is consistent and correct.

We identified $200k of grant income for WWI from the Levi Strauss project had been deferred, being received towards the end of the year. However, on review of the agreement and the analysis provided, it was evident that the project started in 2022. On this basis, the income needed to be recognised in 2022 and this has been adjusted for (Appendix 1). Additionally, we confirmed with management that there were no other similar grant for which income was deferred that should have been recognised.

IPPF ARO grant income recognition

IPPF's income recognition policy for grant income follows the payment plan with donors, but is underpinned by time restricted budgets set up at the outset. We understand IPPF ARO's income recognition policy has historically been to defer income, matching income to expenditure (grants made out to Member Associations). Since 2019 this has been adjusted for by IPPF as part of the consolidated accounts to ensure the group policy is consistently applied at group level as required by the accounting standards.

However, for 2018 and earlier years, we understand that this adjustment was not made in the consolidated accounts. The issue was identified from an investigation carried out by the IPPF team during a visit by finance personnel to the ARO office in December 2022. A line by line exercise identified that the adjustment required for total income from all projects on the books at the time had a gross impact on income of $5.6m and for grant expenditure the impact is $5.4m. The difference of £200k was being carried on the balance sheet. This is in relation to the year ended 31 December 2018.

We reviewed management's working papers around this and challenged back on whether there were any further grants at the time, and discussed the certainty that this was correct in 2019 onwards. The exercise went back to 2017 to check for any additional errors, however, for anything prior to this the grants would now be complete and therefore no adjustment would be required. The net impact on reserves is $200k. Whilst this is not material, management agreed to post a prior year adjustment on the basis of ensuring a clear position going forwards on historic grants. This has also been included in the adjustments listing in Appendix 1.

At the time of writing, we are awaiting the final accounts to review the prior year adjustment and disclosure.

No other issues arose from our work in this area.

2.3 Grant expenditure to Member Associations and Partners

Key related judgements

Charitable activities are undertaken globally through three main routes through:

- IPPF either centrally or through regional offices;
- Member Associations; or
- Collaborative Partnerships.

Expenditure through grants to Member Associations and partners is the largest route for charitable expenditure. In 2022 this expenditure totalled $84m (2021: $110m).

It is important that the nature of and agreements behind these grant payments are understood to ensure the correct treatment is adopted within the financial statements. Specifically, IPPF needs to consider at what point a constructive obligation has arisen in relation to these payments and to ensure that upon the creation of such an obligation the grant is correctly recognised within expenditure and liabilities. With commitments that may straddle the year end the key issue is whether the whole award should be recognised in full at the time of making the commitment as a result of a constructive obligation.

Crowe response

Our audit work included the following:

- Assessing the procedures of accreditation for Member Associations and the level of contact and support to members;
- Assessing the procedures for identifying, vetting and working with partners and the level of contact and support to partners;
- Reviewing the terms and conditions of grant agreements against the Charities SORP (FRS 102) disclosure requirements;
- Assessing the management's classification of a sample of partner grants as normal or performance related, and confirming that the accounting treatment is in line with the classification; and
- Reviewing a sample of reports received from members and partners and IPPF monitoring and evaluation reports as well as other control processes relevant to monitoring end use of funds.

Our conclusions and other comments

At the time of writing, we are looking to conclude our work on grant expenditure and grant commitments, as specified in Section 1.

Grants made as commodities and stock

At the year-end, IPPF held $339k in stock. We understand IPPF make grants to Member Associations from unrestricted core, as well as restricted grants linked to institutional donor funding. At times, Member Associations may ask for the grant in commodities which IPPF in the UK would accommodate and procure with its suppliers. Where this is the case, the key is the point at which the risk and rewards associated with the commodities are with IPPF and when they transfer over to the Member Association. This would determine whose stock it is for recognition.

We understand goods in transit, up until the supplier has delivered the goods to the port, remains the responsibility of IPPF. The stock is recognised in the books of IPPF in the UK, and then moved over to a grant when the transfer has taken place.

No issues arose from our work in this area.

2.4 Estimates and judgements – Pension liability

Key related judgements

The assumptions surrounding the FRS102 pension liability calculations performed by the actuaries can make a significant difference to the result disclosed in the financial statements and are an area of significant judgement.

We have performed a review of the pension assumptions proposed by management against those used by other actuaries for the same period. A small change to the assumptions such as the discount rate or the life expectancy can have a significant impact on the value of the liability.

It is important that you are satisfied that the assumptions used by management are appropriate and we will ask you to provide a written representation to us to confirm this.

Crowe response

Our audit work included the following:

- Reviewing the disclosures and assessing the accuracy of the data provided to the actuaries for the pension scheme;
- Reviewing the actuarial assumptions against those used by a benchmark group of similar entities;

- Reviewing the reports provided by the actuaries to understand the basis of asset valuation;
- Assessing the independence and competence of the actuary;
- Performing testing with a view to substantiating the inputs used by the actuary in their calculations (e.g. verifying the valuation of assets to investment manager reports and agreeing employee data to relevant HR and payroll records); and
- Verifying scheme assets to third part documentation.

Our conclusions and other comments

The pension liability at the year-end stood at $4.14m, based on assets held in the scheme of $31.01m and the present value of the scheme liability at $35.15m. The assumptions surrounding the FRS102 pension liability calculations performed by the actuaries can make a significant difference to the result disclosed in the financial statements.

Our work included reviewing the disclosures and assessment of the accuracy of data provided to the actuaries for the pension scheme and carrying out an assessment of the independence and competence of the actuary.

Our audit testing included benchmarking the assumptions used by the actuary in calculating the FRS102 pension liability. We concluded that the actuary's assumptions are within range compared to other actuarial assumptions we benchmarked against in the sector, with the exception of the life expectancy assumptions for Male 45.

Industry	Male 45
IPPF	**22.70**
Average	**24.23**
Variance from Average	**1.53**
Variance from Min	**0.10**

We understand the life expectancies applied by the actuary have been based using S3PA base tables with CMI 2021 projections. Actuaries apply such models in the life expectancies which can vary.

On the basis of the inflation rates and discount rates used being within the range, we are satisfied with the approach taken, though we note this is an area of management judgement and a small change to the assumptions can potentially have a material impact to the liability. It is therefore important that you are satisfied that the assumptions used are appropriate and we will ask you to provide a written representation to us to confirm this (Appendix 4).

No other issues arose from our work in this area.

2.5 Management override of controls including through journal adjustments

Auditing standards require us to consider as a significant audit risk areas of potential or actual management override of controls. In completing our audit we have therefore considered the following matters.

Significant accounting estimates and judgements

ISA (UK) 540 (Revised) Auditing Accounting Estimates and Related Disclosures requires additional audit focus over management's estimates, including undertaking separate risk assessments for both inherent and control risks. In respect of the former, consideration is given to the estimation uncertainty, the subjectivity and the complexity of the estimate. We are also required to consider whether the disclosures made in the financial statements are reasonable.

Management have made a number of necessary significant accounting estimates and judgements which impact the financial statements.

Estimates and judgements that are not considered to be significant risks are set out in Section 3.

It is important that you are satisfied that the assumptions used by management are appropriate and we will ask you to provide a written representation to us to confirm this.

Controls around journal entries and the financial reporting process

We reviewed and carried out sample testing on the charity's controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements. We also considered the risk of potential manipulation by journal entry to mask fraud. We reviewed IPPF's procedures for controlling journals as well as considering the management's procedures for the comparison of actual results to budgets.

Our audit work included the following:

- Understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements and testing the appropriateness of a sample of such entries and adjustments;
- Reviewing accounting estimates for biases that could result in material misstatement due to fraud; and
- Obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of IPPF and its environment.
- Using data analytics to assess the whole population of journals to aid us in our testing of journals.
- Reviewing the group's procedures for controlling journals as well as considering management's procedures for the comparison of actual results to budgets

We did not identify any instances of management override of controls or other issues from our sample testing of IPPF journals. However, we note that journal processing can be an area of potential risk and it is good practice to include consideration of this within the overall IPPF risk assessment.

At the time of writing, we are outstanding the completion of our work in this area as detailed in Section 1. There are no issues arising to date.

Significant transactions outside the normal course of business

We are required to consider the impact on the financial statements if there are any significant transactions occurring outside of the normal course of the charity's business.

No such transactions were notified to us by management, nor did any such transactions come to our attention during the course of our work.

3. Other audit findings

In addition to matters relating to the significant audit risks as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Income

International Standards on Auditing (ISA (UK) 240) presumes there is always a significant risk of material misstatement due to fraud in revenue recognition, unless this is rebutted.

Whilst we deem the completeness of grant income to be significant (see Section 2) we do not consider other income streams to be significant due to its value, and in particular in complexity.

Across all income streams the key risks remain the same:

- Completeness (has all income due been appropriately recognised in the period?).
- Cut off (has income been recognised in the appropriate period?).
- Fund allocation (have donor restrictions on the use of the income been appropriately captured in the financial statements?).
- Accuracy (where income is owed at year end, is it likely to be received or should it be provided against?).

Donations and Legacies

Donations and Legacies make up $1.77m of income for IPPF.

As part of our work we obtained breakdowns for the income recognised in the year to test to source documentation. We identified that $1.58m worth of donations had been included in *"Grants from multilaterals and other sources"* in the draft accounts. We have proposed a reallocation to "*Donations and legacies from others"*. This has been included in our adjustments in Appendix 1.

No other issues from our work in this area.

3.2 Payroll

Payroll is the largest single expenditure item for IPPF outside of grants to members and partners. In 2022 staff costs totalled $22m.

As part of our audit we reviewed the controls in place over monthly processing including the reconciliation of the payroll to the nominal ledger.

We also performed analytical procedures that consider gross pay, deductions and staff numbers year on year to ensure that all trends and relationships appear reasonable and that the totals agree with the ledger, and we have verified a sample of staff between the payroll and other HR records and agreed their costs to supporting documentation on a sample basis.

There are no issues to report in relation to the work completed to date. As detailed in Section 1 we are awaiting final information to complete our testing in tis area.

3.3 Overseas operations and expenditure

IPPF carries out activities both directly and indirectly through regional offices, subsidiaries, Member Associations and Collaborative Partners. IPPF currently consists of the central office, four regional offices and three subsidiaries.

The group is both run and audited along divisional lines, all offices are able to directly input transactions in NetSuite, the finance system.

The parent charity incorporates the Central Office, based in London, as well as the four regional offices. Income primarily consists of grant and contract income from institutional bodies and multilateral organisations. The income is mainly received by the Central Office.

Expenditure is split between those administrative costs required to support IPPF's work, direct project costs and Member Association and Partner funding.

Our audit approach focused on the detailed testing of balances at the Central Office. In addition to this we performed substantive analytical review of income and expenditure. For significant risk areas we tested the systems in place at the Central Office. We also spent time in understanding the key monitoring controls in place over IPPF overseas operations, Member Associations and Collaborative Partners.

Audits for the two subsidiaries Europe Network and Africa Region were carried out by our Crowe network offices locally. Audit work required for the consolidated financial statements on the IPPF Worldwide Inc subsidiary was conducted directly by us, together with coverage of the branches globally.

As well as expenditure to Member Associations and partners IPPF also spends money overseas directly through regional offices. There are also three overseas subsidiaries in Brussels, Africa and USA. Given the nature of IPPFs work and the volume of activity in foreign currencies there is an elevated risk of foreign exchange currencies. IPPF also trades in foreign exchange hedges to mitigate this risk.

Our audit work included the following:

- Understanding the process by which overseas expenditure are controlled, captured and reported within the organisation. Included within this work was a review of the processes used by the Central office to verify the validity of the information provided by the overseas offices.
- Performing substantive audit procedures such as the testing of a sample of selected expenditure transactions.
- Reviewing the controls in place to manage and account for overseas cash and assets.
- Reviewing the procedures used by IPPF to ensure compliance with local laws and regulations and the means by which non-compliance is identified, recorded and reported. We requested each of the three overseas subsidiaries together with each of the regional offices to complete our legality questionnaire.
- Recalculating the profit / loss on foreign exchange contracts.
- Reviewing and documenting the accounting treatment and disclosures to ensure they are compliant with FRS102.

Component audits

As IPPF Africa Region and the IPPF Europe Network require statutory audits in their respective countries, our Crowe network firms Crowe Erastus and Crowe Brussels (Callen, Pirenne & Co.) conducted these audits. We issued detailed audit instructions to both the auditors and attended the relevant audit meetings.

We reviewed the responses provided by the component auditors for IPPF Europe Network and Africa Regional Office, as well as reviewed work in specific areas of income and grant expenditure, and concluded that no significant issues arose. We are satisfied with the approach on income recognition being an area of significant audit risk for the group.

We were also made aware of the difference in income recognition in IPPF Africa Region which has resulted in a prior year adjustment (see Section 2.2).

We were not made aware of any other non-trivial issues that would impact the group financial statements.

Internal audit

Internal Audit services are provided by RSM. We had preliminary discussions with RSM with regards to the internal audit plan and work conducted by them over 2022 and for updates on work carried out over recent years.

We also understand that the Risk and Assurance team at IPPF have carried out their own assurance reviews of MAs in 2022.

As part of our work we reviewed both the assessed risks that drive the internal audit plan and the findings in the reports provided to ensure our audit approach is appropriate.

We obtained and reviewed the following available reports produced in the period:

- Caribbean Family Planning Affiliation (MA)
- Reproductive Health Uganda (MA)
- Indonesian Planned Parenthood Association (MA)
- Netsuite user review
- Delegation of authority policy review
- Country office review – East and Southeast Asia and Oceania Regional Office

We understand that the assurance reviews carried out at the MAs are part of the wider Global Assurance programme and complement the Federations work to improve and renew the accreditation system which is to be implemented in 2023. Although the reports provided minimal and partial assurance of the MAs we have considered this in our work on grant expenditure (Section 2.3) and as such does not impact our risk assessment of work in this area.

East and Southeast Asia and Oceania Regional Office review

We understand RSM carried out a visit to the ESEAOR regional office in January 2023. The review carried out by RSM indicated 11 action points, of which 3 were classified as low priority, 7 as medium priority and 1 as high. The most notable finding was the uncertainty if funding agreements in place are not signed by the Central Office and it is unclear if the agreement are approved by Trustees of the Director General. There is a risk that the funds are not compliant with current financial sanctions and so it is recommended that Legal advice should be sought to ensure compliance with the relevant financial sanctions with oversight from the Board of Trustees.

We have considered the report and findings from RSM and do not deem the findings to impact our risk assessment and our audit work.

Africa Regional Office review

We understand the review into the ARO regional office was borne out of historic problems and recent investigations into the office. The review carried out by RSM was extensive and covered a number of areas:

- Policies and procedures
- Registration and Host agreements
- On-site security
- Budget setting and control
- Procurement
- Finance and cash management
- HR and payroll
- Travel
- Programme and MA monitoring
- Information Technology
- Transport

58 action points were agreed with management, of which 18 were classified as high, 29 as medium and 11 as low priority. We have reviewed the points raised and concur that these need to actioned as a matter of urgency. We also recommend that this is reviewed alongside the Crowe Erastus external audit report for the Africa Regional Office.

We understand that with the recent organisational restructure the majority of the ARO team have now left IPPF with support being provided by PwC.

Incident management reporting, fraud and Serious Incidents

We have had discussions with the Risk and Assurance team at IPPF. Risk management of the Secretariat, fraud, serious incidents, whistleblowing and compliance are all under this division. All frauds are reported globally by the MAs and secretariat offices through the “SafeReport” system, which allows individuals within the IPPF Federation to share information of fraud and mismanagement. The individual raising any such information is protected under the IPPF raising a concern policy. A summary fraud report and incidents report is shared with the Finance, Audit & Risk Committee on a regular basis.

As part of our work we reviewed the summary points from the fraud report for any potential impact on the financial statements, as well as serious incidents reported to the Charity Commission. The summary paper presented to the Finance, Audit & Risk Committee for 2022 noted 82 new concerns were logged. We understand in total, 38 cases remained open at the end of the year. We understand, other than the forensic review on the Arab World Regional Office, the total potential impact to IPPF funds is below materiality. The key ones identified are noted below.

- **Arab World Regional Office investigation**

Through a financial review undertaken by IPPF at this office, some financial issues and discrepancies were identified and subsequently notified to various donors. A forensic audit was requested on the historic transactions that ran through the office which is being conducted by PwC. At the time of writing this report the estimated financial loss to IPPF is unclear, but the transactions in question have been identified. The forensic review was requested by the donors and implicates unrestricted core funding. The team in charge of the office during the financial review were removed from the office following the financial review.

2022 Audit update

From our conversations with management, the Risk and Assurance team and Internal audit their belief is that there is no fraud as such, but instead there were significant control weaknesses and poor governance at the regional office. With a large portion of transactions being cash based the audit categorised a large number of transactions as ineligible expenditure. The investigation is still ongoing and IPPF are responding to the questions posed by the auditors and the donor. We understand that of the transactions in question c.70% relate to salaries which suggests that this majority is indeed eligible. However due to the poor documentation support for the amounts paid as salaries, such as payrise letters, has been difficult to locate however we understand management are continuing to locate these to support the expenditure.

We understand the areas under scrutiny for the remaining 30% is focused on expenses for meetings held in Dubai and confusions around payments made to local money agents who then transferred monies to MAs. This was required due to the cash based economies in which these MAs worked in.

We understand that to date PWC have not identified any fraudulent activity and IPPF are still in discussion with PWC in respect of the draft findings. Whilst IPPF has not received any formal request for repayment of donor funds, for one donor it is considered possible that they may request the repayment of funds if there are any findings in respect of the mismanagement of assets, although the quantum of any possible repayment is unknown. We recommend a contingent liability is disclosed in the financial statements in line with Charities SORP:

'7.28. A charity must recognise a liability for a legal or constructive obligation as a provision when either the timing or the amount of the future expenditure required to settle the obligation is uncertain.

7.33. …If it becomes clear that the payment is possible but not probable, then a liability for the commitment should not be recognised. Instead, the funding commitment should be disclosed as a contingent liability'

Management estimate the investigation will be complete by June 2023. As part of our post balance sheet testing we will update on the findings from the review and consider if there is any material impact on the financial statements, report appropriately and seek representation from yourselves around any findings.

- **Family Health Options Kenya (FHOK) – case since 2020**

We understand IPPF received whistleblowing allegations of corruption, misuse of funds, sexual harassment and abuse of power perpetrated by the Executive Director (ED) and others at FHOK. The estimated amount of fraud over 3 years to 2020 is $340k. The action taken by IPPF was to suspend the Executive Director and Finance Director, and FHOK has been suspended from the IPPF membership.

2022 Audit update

A decision was made to expel the MA and donors have been kept up to date with the case. Management are in the process of calculating the total financial loss to IPPF for repayment and are seeking to close this case with the donors.

- **Planned Parenthood Association of Liberia (PPAL) – case since 2020**

We understand allegations were made around mismanagement of funds, an overall lack of transparency and accountability involving PPAL assets using project money for personal use by the Executive Director and conflicts of interest involving senior management. A forensic audit was conducted but the Trustees felt the report was of poor quality from the auditor and it did not provide sufficient assurance. The draft forensic report issued from internal investigations concluded the estimated fraud implicating IPPF funds amounted to $370k. The case remains open with the Charity Commission and donors have been kept up to date on the issues.

2022 Audit update

A decision was made to expel the MA and we have confirmed that the Charity Commission formerly closed the case in November 2022. Donors have been informed of the final loss due to the fraud and ineligible expenditure with one donor requested repayment for a portion of core funds amounting to $35k which has been paid.

- **Rahnuma Family Planning Association of Pakistan – case since 2021**

We understand allegations were made around malpractice at the MA surrounding the sale of contraceptives under the WISH project in the market and misappropriation of assets. After an investigation was carried out by Ernst and Young it was reported that a number of these allegations could be substantiated, however the MA are challenging the findings. It is believed that the assets that remained at the end of the project were donated to the MA and are consulting with the WISH project team to corroborate this. The estimated fraud amounted to $124k. We understand this has been reported to the Charities Commission and this case remains open.

- **Reproductive and Family Health Association of Fiji (RFHAF) – case since 2022**

We understand allegations were made against the Executive Director or the MA of taking funds for personal use. An external investigation was commissioned and this found that $76.5k was unaccounted for. Management also carried out their own investigation and worked with the external auditors and found that there was $70k misappropriated, however it is unclear how much of the missing funds related to donor funds.

We understand management are in the process of reporting this to the Charities Commission as more information is made available to them through their internal investigations.

We have been made aware of other frauds in the year at other MAs but the estimated fraud of these cases altogether total a trivial amount.

Africa Regional Office

At the beginning of 2023 it was found that ARO had paid a cost of living allowance to staff in January 2023 for an amount significantly higher than the level agreed by the Directors Leadership team. We understand this was due to the calculations being originally made on salaries denominated in USD rather than the agreed conversion to the local currency. The overpayment totalled $234k to 72 staff.

The overpayments will be recovered however there is a risk that staff may take legal action.

Legality questionnaires

For the 2021 audit we produced legality questionnaires that we requested management and regional offices to complete as there is a risk that local offices may not be fully complying with local regulations.

We recommended management review the results of these questionnaires in detail, in addition to ensuring these are completed and reviewed on an annual basis. They can be used as a monitoring tool to identify areas where capacity is lacking in the area of legal compliance. Where weaknesses are identified, they should be followed up with the country teams, to ensure adequate support is provided to decrease risk of legal non-compliance to an acceptable level.

In our audit work for 2022 we noted that although these legality questionnaires were not directly used to monitor risks on an ongoing basis, they were completed at year end and reviewed by management for our audit and there were no issues identified.

We continue to recommend that these are developed into a monitoring tool for use across the year. We understand that a compliance officer role is included in the updated structure who will be able to develop processes in this area once appointed.

3.4 Estimates and judgements

ISA (UK) 540 Auditing Accounting Estimates and Related Disclosures requires additional audit focus over management's estimates, including undertaking separate risk assessments for both inherent and control risks. In respect of the former, consideration is required of the estimation uncertainty, the subjectivity and the complexity of the estimate. We are also required to consider whether the disclosures made in the financial statements are reasonable.

From our audit, we identified the following for specific review:

- Basis of income recognition in respect of grant income (significant risk – see Section 2.2)
- The assumptions adopted by management and used by the actuary to calculate the pension liability (significant risk – see Section 2.4)
- Assessment of impairment of assets (see below)
- Assessment of the remaining useful life of assets (see below)
- Valuation of investment property held (see below)

Impairment of assets and assessment of useful life of assets

We reviewed the depreciation policy used by IPPF. We reviewed the depreciation charge, performing a proof in total in order to develop an expectation of depreciation and comparing it to the actual charge to confirm if the amount was reasonable.

No issues arose from our work in this area.

Valuation of investment property held

IPPF have an investment property in London. IPPF's policy states that "*full valuations are made every five years by a qualified external valuer, and in each* *other year there is a management assessment of fair value"*. A formal valuation was last carried out in 2020, and management remain satisfied that the property is carried at fair value (£840k) and there are no indicators of impairment. As part of our work, we agreed the ownership of the property to land registry documentation and challenged management on the estimation, as well as benchmark the value to similar properties in the area. Whilst the property market has seen a substantial decline in the last year, 2020 valuation was carried out during the time of the Covid pandemic, suggesting that the property was at a lower value. Therefore management's assessment that whilst there may have been an increase in the value in 2021, the 2022 valuation does seem a reasonable.

No issues arose from our work in this area.

3.5 Cost allocation

In addition to the cost allocation within IPPF central office, is the issue of cost allocation to its subsidiaries and branches.

Our audit work included the following:

- Obtaining details of the basis of cost allocation applied by and between the charity and its subsidiaries.
- Performing a specific review of the basis and the details of the allocation.
- Verifying that the basis is consistent with prior years.
- Ensuring recharges to and from branches are eliminated on consolidation.

At the time of writing, we are awaiting the updated financial statements to confirm the correct application of the methodology.

3.6 Other balance sheet items

In addition to our focus on the areas detailed above we carried out our standard audit procedures on the other material balance sheet amounts. Our work included testing key control account reconciliations; testing bank reconciliations, a review of post year end transactions where these help to confirm the year end position and confirmation of assets held (e.g. cash at bank) to third party confirmations.

Receivables from Associations

We noted a new line within Debtors called *Receivables from Associations*. In the prior year this balance was nil but as at 31 December 2022 there is a balance of $678k. From discussions held with management, we understand it is rare for grants to be paid in advance to Member Associations and partners, however there are certain advances to associations and payments on their behalf.

This is currently being investigated by management and a full reconciliation of this balance will be done to understand the balance and adjusted from subsequent grant payments to MAs.

Global Reach Deposits

We noted that there was a balance held with Global Reach for $1,639k. This relates to a 3% deposit, which has been paid as part of an agreement with Global Reach in order to provide a better rate on forward contracts in 2023. Once the forward contract has been entered, Global Reach would then refund the deposit on each exchange, alongside the money for the forward contracts. We understand that this was also in place for the 2023 contracts and we noted that this deposit was indeed returned on entering the contracts, although a small balance remained relating to these. However, in April 2023, there was a development where Global Reach is becoming Corpay , part of FLEETCOR, who have confirmed to management that the deposit will be repaid immediately and will not be required in future to obtain lower favourable rates.

Creditors and expelled Member Associations

We noted that there was an accrual for grants payable to the Member Associate *FPAB Bangladesh* for c$613k. FPAB were receiving a grant from IPPF from unrestricted core funding of c$920k which was being paid over the year in three tranches. We understand from management, that the grant agreements are written as such that if a Member Association is expelled, IPPF are no longer obliged to make further payments, but if they are suspended, then they must await a satisfactory review and audit. Whilst they are at expulsion stage, we understand this has as yet not been concluded, and therefore we are satisfied the liability remains.

More importantly, we understand in such situations, where it is restricted funding provided and a Member Association is being reviewed and investigated for potential suspension, the donor would be informed. A clawback of funds may result, which IPPF would be accountable for.

Cash at bank and cash equivalents

At the year-end IPPF held $30.4m of Investments in short term deposits to raise investment income through interest. We enquired with management how they were intending to use the funds, if there was a long term investment strategy or if there was a plan to use it as working capital. The intended use of the funds determines the classification of the asset. We understand the original intention was to implement an investment strategy, however currently it is still being used for shorter term needs such as to make payments to Member Associations. We therefore jointly concluded that the cash should be moved from Investments to Current Assets. This has been included in our adjustments listed in Appendix 1.

3.7 Funds

IPPF operates a number of different funds subject to various restrictions and designations. IPPF must ensure that all movements on funds are correctly identified and accounted for. This requires careful consideration of the various terms and conditions which may be applied to income. Our audit work included the following:

- Tracing restricted contributions, legacies and grants found in our income testing to the relevant fund account.
- Reviewing a sample of expenses allocated to restricted funds to ensure that the expenditure was spent in accordance with the objects of the fund.
- Reviewing the analysis of net assets to ensure that it has been correctly allocated across the funds.
- Reviewing the processes in place to ensure that restricted transactions are completely and accurately captured and reported within the organisation and review year end balances to ensure that they appropriately reflect the restrictions that should be in force.

At the time of writing, we are awaiting updated financial statements to conclude our work on funds

3.8 Consolidation

The IPPF group comprises of the following entities requiring consolidation into the Group financial statement:

- The International Planned Parenthood Federation
- The International Planned Parenthood Federation - Africa Region
- The International Planned Parenthood Federation - Europe Network
- IPPF Worldwide Inc.
- International Contraceptive & SRH Marketing Limited (trading as ICON)*

  *Understood to be dormant in 2021 and 2022.

Our audit work included the following:

- Reviewing the consolidation schedule and ensure that each entity's results included in the calculation of group numbers are consistent with our audit work on the individual entity financial statements;
- Reviewing the workings for the group accounts to determine if all intercompany transactions and balances have been eliminated on consolidation and all significant consolidation adjustments have been processed correctly; and
- Reviewing the accounting policies applied within each entity and ensure that, where appropriate, adjustments have been performed in order to bring accounting in-line with group policy.

At the time of writing, we are awaiting to conclude our consolidation work.

3.9 Related parties

In line with the ISAs which direct our audit work (ISA 550) we are obliged to ensure that any related parties are identified and that any transactions involving these parties are appropriately authorised and correctly disclosed in the financial statements. The definition of a "related party" as defined in FRS 102 encompasses, in addition to the Trustees, any members of management who can directly influence management decisions and close family members of both; the latter being of relevance if individual Trustees and members of management are perceived to be in a position to influence the management decisions of family members or can be influenced by them.

We have therefore reviewed IPPF's procedures for identifying potential related parties and ensuring all transactions are complete, including reviewing any annual declaration of interested completed by trustees and senior management.

No issues arose from our work in this area.

4. Fraud and irregularities and our audit reporting

Audit reporting on detecting irregularities, including fraud

In line with ISA (UK) 700 our audit report includes an additional comment to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

Irregularities are acts of omission or commission which are contrary to the prevailing laws or regulations. Fraud includes both fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our responsibility is to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The additional reporting requirements this year placed increased emphasis on our understanding of the risks to IPPF from fraud and irregularities. Our audit included discussions with management and those charged with governance to obtain their assessment of the risk that fraud may cause a significant account balance to be materially misstated as well as other procedures to obtain sufficient appropriate audit evidence.

IPPF has systems in place for the review and authorisation of expenditure and journals by management, including dual authorisation and segregation of duties between those posting transactions and those approving payments.

We obtained an understanding of the legal and regulatory frameworks within which the charity and group operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Charities Act 2011 together with the Charities SORP (FRS102). We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to the charity's and the group's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the charity and the group for fraud. The laws and regulations we considered in this context for the UK operations were General Data Protection Regulation.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be within the timing of recognition of income and the override of controls by management. Our audit procedures to respond to these risks included enquiries of management, internal audit, and the Finance, Audit & Risk Committee about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals, reviewing accounting estimates for biases, reviewing regulatory correspondence with the Charity Commission, and reading minutes of meetings of those charged with governance.

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records including any material misstatements resulting from fraud, error or non-compliance with law or regulations.

However, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected even though the audit is properly planned and performed in accordance with the ISAs (UK). No internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly, our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

We have also included in Appendix 6 some fraud risks that Trustees and management should be aware of.

Trustee responsibilities

The primary responsibility for safeguarding the charity's assets and for the prevention and detection of both irregularities and fraud rests with the trustees and management of the organisation. It is important that management, with oversight of those charged with governance, place a strong emphasis on fraud prevention and fraud deterrence. This involves a commitment to creating a culture of honest and ethical behaviours which can be reinforced by an active oversight by those charged with governance.

As in past years, the following statements will be included in the letter of representation which we require from the trustees when the financial statements are approved.

- The trustees acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and errors, and the trustees believe they have fulfilled those responsibilities.
- The trustees have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The trustees are not aware of any fraud or suspected fraud affecting the charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
- The trustees are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the charity's financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2022 financial statements, or in the period since the previous year end.

Appendix 1 - Reporting audit adjustments

Adjusted misstatements

The following misstatements, which have been corrected by management, were also identified during our audit work and up to the date of this report. No further adjustments to the financial statements are required for these items and this information is provided to assist you in understanding the financial statements completion process and to fulfil your governance responsibilities.

Adjustment description	Debit/credit net income £k	Debit/(credit) net assets £k	Debit/(credit) opening reserves £k
1. Reallocation of cash donations from "Donations and legacies" to "Grants from multilaterals and other sources"	1,584 (1,584)	-	-
2. Income of $200k for WWI incorrectly deferred	(200)	200	-
3. Reallocation of accrued grant income from "Receivable from others" to "Receivable from Donors"	-	8,747 (8,747)	-
4. Reallocation of Cash and Cash Equivalents from Investments (non-current assets) to Cash (current assets)	-	20,232 (20,232)	-
5. Prior year adjustment for 2018 ARO Grant income*	203		(203)

**our review of the extra disclosures required for this prior year adjustment is currently outstanding.*

Appendix 2 - Systems and controls

We have set out below certain potential improvements to the charity's processes and controls which we noted during our audit work and which we believe merit being reported to you.

Our evaluation of the systems of control at IPPF was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken: We have also included below a brief update on the matters we raised last year.

High	These findings are significant and require urgent action.	(0 comments in this category)
Medium	These findings are of a less urgent nature, but still require reasonably prompt action.	(0 comments in this category)
Low	These findings merit attention within an agreed timescale.	(1 comments in this category)

Audit finding and recommendation	Priority	Management response
1. Fixed Asset Register From discussions with the IPPF Finance Team, we identified that overseas offices were posting fixed asset journals to the nominal ledger but were not including them in the Fixed Asset Registers. Therefore there is a risk of no proper log kept of assets held by the charity. Recommendation We recommend that the regional offices are reminded on the policies for recognising fixed assets and how to treat them appropriately in both the nominal ledger and the Fixed Asset Register.	Low	

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2022 financial statements.

Status		Priority
Recommendation fully implemented or no longer relevant	Green	These findings merit attention within an agreed timescale.
Recommendation partially implemented	Amber	These findings are of a less urgent nature, but still require reasonably prompt action.
These findings merit attention within an agreed timescale.	Red	These findings are significant and require urgent action.

Observations and recommendations in 2021 or prior periods	Priority	Status	Update 2022
1. Accreditation and review of Membership Associates Partner organisations go through a rigorous due diligence and accreditation process, which includes; legality checks, financial reviews, signed declarations of commitment, checks on organisation leaders and a comprehensive 48 point checklist, before full membership status is granted. However, ongoing monitoring is important to ensure standards are maintained and risks of reputational damage or clawbacks are minimised. IPPF accreditation system requires a member association to be accredited once every five years. Upon our review of the central log of field visits we noted that a number of MAs had not been reviewed in the past 5 years. Other than the above IPPF does undertake: • Regular field visits and compliance reviews by restricted-project finance officers, secretariat staff and regional office colleagues at the country level (unfortunately these have been infrequent in the last two years, due to COVID 19 restrictions); • Reviews of the annual statutory audits of Member Organisations receiving unrestricted core grants greater than US$ 50k; • Forensic audits when financial wrongdoing is identified or suspected; • Project reviews conducted by staff based in the regional offices; • Accreditation reviews; • Internal reviews by specialists and external consultants.	Medium	Closed	We understand that IPPF has brought in a new accreditation system which includes an updated criteria and more frequent reviews with MA's needing to evidence they are compliant every 4 years (as opposed to every 5 years previously). We also understand that IPPF plans to implement a new Member Association dashboard which will help track reviews, membership status and as well monitoring of funding agreements and spending. There will also be an automation of the onboarding process which will directly communicate to Netsuites. ***Status: Closed***

Besides the above, over the past two years IPPF has significantly strengthened its due diligence process of the board and senior management of the MAs, by annually undertaking the reviews of Board and Senior management team members using a due diligence software of all MAs and collaborative partners receiving unrestricted core funds from IPPF. Effective May 2021, we note that a new Global Assurance programme started that will consist of the following processes: • Carry out more risk based audits of the MAs; • Carry out field visits on a more regular basis; • Provide training modules for key staff members; and • Fraud guidelines for secretariat and MA staff. <u>Management Response in 2021</u> The review of the current accreditation system is underway and will be considered by the Board of Trustees in June 2022. Additionally, there is usually a justifiable reason, why an accreditation review has not been possible within the five year period, which could include new associate member not yet eligible for review, an AM2 member not required to undergo review, or an MA granted exemption by our governing body. Based on all the reviews of the accreditation processes, it has been observed that all the eligible MAs are accredited/ visited within every six years.			
2. Centralised register and log for donor and grant audits We understand there is no centralised register maintained in respect of donor audits that are due to take place or have taken place, instead responsibility of these sit with project leads. Having central oversight of these audits would allow management to track when audits are due to take place and ensure relevant country office has the staff and resources to manage the audit. A system to log all issues from the audits would allow management to identify recurring themes to share throughout the organisation to improve the control environment or identify training needs. *<u>Recommendation</u>* We recommend a central register is maintained and kept up-to-date. It should note the following: • Country offices and institutional funded programmes requiring an audit together with the full audit timeline. This will allow management to obtain the reports from the country offices as soon as they are available and chase when overdue.	Low	Open	IPPF are still looking to implement this and will be looking to introduce a centralised register log. ***Status: Open***

• The control issues and recommendations logged, how are they being addressed and note a timeline and responsibility to action them. This will allow management to ensure all issues are being addressed promptly. In addition, management or the Internal Audit team should review the register on a periodic basis to identify any recurring themes so that training needs can be addressed early, and recommendations made from a programme audit or country audit that could be shared throughout the organisation. Overall this process will not only give the coverage of assurance attained overseas for us as the auditors, but to the Trustees and management. *Management Response in 2021* *Recommendation is noted and will be acted upon within the timeline suggested above.*			
3. Double payment to partner organisation During our audit work on grants we noted that a double payment had been made in error to the International Rescue Committee as part of the Wish2Action project. The duplicated payment totalled c£2.2m. The duplicate payment was identified in early 2022 and confirmed by IRC around the same time. We understand that this error was made in part due to the member of staff who had raised the purchase order falling ill before they had closed the purchase order on the system, which was then duplicated by another team member. IRC has since returned the duplicated payment to IPPF. *Recommendation* We recommend that weekly bank reconciliations are done to ensure that any mistakes in processing of payments are picked up in a timely manner which includes matching payments to purchases. *Management Response in 2021* *A detailed review was undertaken by the management for the reason behind this error, following which the following are some of the recommendations that have already been implemented:* • *Bank reconciliation of all major bank accounts are undertaken on a weekly basis (instead of a monthly basis).* • *Maintenance of manual cash sheet (transaction listing of all banks) being updated on a regular basis.*	Low	Closed	From our testing, we have not found any suggestions that these issues have recurred this year. ***Status: Closed***

• *Closure of transaction on the NetSuite system as soon as the payment is uploaded on the Banking system for payment, rather than waiting for the payment to be cleared from the bank account.*			
4. Petty cash reconciliations During our work on cash balances we noted a number of petty cash accounts did not have a year end reconciliation that was prepared. There is a risk that without regular reconciliations fraudulent or errors may go undetected. *Recommendation* We recommend that monthly petty cash reconciliations are undertaken at regional office with oversight by the Central Office finance team to ensure mistakes are detected and resolved in a timely manner. *Management Response in 2021* *Recommendation is noted and will be acted upon.*	Low	Closed	Crowe have tested for all year end petty cash accounts and obtained evidence reconciliations performed for all of them. ***Status: Closed***
5. Legality questionnaires Legality questionnaires produced have been requested for completion by the overseas offices as there is a risk that local offices may not be fully complying with local regulations. *Recommendation* We recommend management review the results of these questionnaires in detail, in addition to ensuring these are completed and reviewed on an annual basis. They can be used as a monitoring tool to identify areas where capacity is lacking in the area of legal compliance. Where weaknesses are identified, they should be followed up with the country teams, to ensure adequate support is provided to decrease risk of legal non-compliance to an acceptable level. *Management Response in 2021* *We agree with the recommendation. The legality questionnaires will be reviewed on ongoing basis to ensure all weaknesses are properly addressed at the regional offices and within the local legal context in which they operate.*	Low	Closed	Crowe have obtained the legality questionnaires completed by all overseas office and content these are reviewed and addressed by management. Going forward we understand there will be a compliance officer in place and the legality questionnaires will be used to create an internal monitoring tool. ***Status: Closed*** *Currently awaiting one final questionnaire (WWI).*

Appendix 3 - Materiality

Materiality and identified misstatements

As we explained in our Audit Planning Report, we do not seek to certify that the financial statements are 100% correct; rather we use the concept of "materiality" to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment. The assessment of materiality is a matter of professional judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

Our overall audit materiality for the financial statements as a whole took account of the level of activity by IPPF and was set at approximately 2% of income.

We reassessed materiality based on the draft financial statements, and the following is a summary of the overall materiality levels we applied to the separate entities within the group.

Entity	Materiality calculation	Planning Materiality $'000	Final Materiality $'000	Reporting threshold $'000
Group	2% of income	1,750	2,400	120
Charity including WWI	2% of income	1,550	2,250	113
Africa Regional Office (component materiality)	2% of income	40	40	2
European Network (component materiality)	2% of income	80	160	8

Appendix 4 - Draft Representation Letter

Crowe U.K. LLP

55 Ludgate Hill

London

EC4M 7JW

Dear Sirs

We provide this letter in connection with your audit of the financial statements of International Planned Parenthood Federation for the year ended 31 December 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the group and of the charity as at 31 December 2022 and of the results of the group's and the charity's operations for the year then ended in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

We confirm that the following representations are made in respect of the group and the parent charity on the basis of sufficient enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation and that, to the best of our knowledge and belief, we can properly make each of these representations to you. If completion of the audit is delayed we authorise Varun Anand, Director, Finance and Technology to provide an update to all representations sought.

1. We have fulfilled our responsibility for the fair presentation of the financial statements in accordance with UK GAAP.
2. We acknowledge as trustees our responsibility for making accurate representations to you.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and errors, and we believe we have appropriately fulfilled those responsibilities.
4. We have provided you with all accounting records and relevant information, and granted you unrestricted access to persons within the entity, for the purposes of your audit.
5. All the transactions undertaken by the group and the charity have been properly reflected and recorded in the accounting records or other information provided to you.
6. The methods, the data, and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting standards.
7. We have considered the adjustments in Appendix 1, proposed by you. In our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements.

8. We have disclosed to you any known actual or possible litigation or claims against the charity whose effects should be considered when preparing the financial statements and these have been reflected in the financial statements in accordance with applicable accounting standards.
9. We confirm the existence and ownership by IPPF of the property in the East, South East Asia & Oceania Regional Office and are satisfied with its value carried forward at the year-end of $4.3m, and there are no there are no indicators of impairment.
10. We confirm that we have considered the Charity Commission and HMRC guidelines relating to charities that operate internationally and that there are no matters that need to be brought to your attention.
11. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
12. We are not aware of any breaches of our charitable trusts and have advised you of the existence of all endowments and funds maintained by us.
13. There have been no events since the balance sheet date which require disclosure or which would materially affect the amounts in the financial statements. Should any material events occur which may necessitate revision of the figures in the financial statements, or inclusion in a note thereto, we will advise you accordingly. We specifically authorise Varun Anand, Director, Finance and Technology to provide an update for you to cover the time period between the signing of this letter and the date of your audit report.
14. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
15. We are not aware of any fraud or suspected fraud affecting the group or the charity involving those charged with governance, management or other employees who have a significant role in internal control or who could have a material effect on the financial statements.
16. We are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, which would have an impact on the financial statements.
17. We are not aware of any frauds that have not been included in the fraud log/ register provided to you.
18. We are not aware of any known or suspected instances of non-compliance with those laws and regulations which provide a legal framework within which the group and charity conducts its business.
19. We confirm that complete information has been provided to you regarding the identification of related parties and that we are not aware of any significant transactions with related parties.
20. We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with applicable accounting standards and with the recommendations of the applicable charity SORP'.
21. The group and charity have complied with all aspects of contractual agreements that could have a material effect on the consolidated and parent charity's financial statements in the event of non-compliance.
22. We confirm that, having considered our expectations and intentions for the next twelve months and the availability of working capital, the group and charity are a going concern. We are unaware of any events, conditions, or related business risks beyond the period of assessment that may cast significant doubt on their ability to continue as a going concern.

Yours faithfully

………………………………..………….

Trustee
Signed on behalf of the board

Date ……………………………………….

Appendix 5 - Responsibilities and ethical standards

Audit purpose and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of the IPPF group prepared by management with the oversight of the trustees and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit.

Financial statements

The trustees of IPPF are responsible for the preparation of the consolidated financial statements on a going concern basis (unless this basis is inappropriate). The trustees are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

Legal and regulatory disclosure requirements

In undertaking our audit work we considered compliance with the following legal and regulatory disclosure requirements, where relevant.

- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008 (or updated Regulations if enacted before completion of the financial statements)
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS 102)

Ethical Standard

We are required by the Ethical Standard for auditors issued by the Financial Reporting Council ('FRC') to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.

Crowe U.K. LLP has procedures in place to ensure that its partners and professional staff comply with both the relevant Ethical Standard for auditors and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As explained in our audit planning report, in our professional judgement there are no relationships between Crowe U.K. LLP and IPPF or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

Independence

International Standards on Auditing (UK) require that we keep you informed of our assessment of our independence.

We confirm that we have not provided any non-audit services to the group / we have carried non-audit services as detailed below. We have not identified any other issues with regards to integrity, objectivity and independence and, accordingly, we remain independent for audit purposes.

In communicating with those charged with governance of the parent charity and group we consider those charged with governance of the subsidiary entities to be informed about matters relevant to them.

The matters in this report are as understood by us as at 2 May 2023. We will advise you of any changes in our understanding, if any, during our meeting prior to the financial statements being approved.

Non-audit services

We have considered the non-audit services we have provided in the period and have concluded that there are no facts or matters that bear upon the integrity, objectivity and independence of our firm or of the audit partner and audit staff related to the provision of such services which we should bring to your attention. Our fees for non-audit services in the year have been as follows.

- Grant audits £20,820

Use of this report

This report has been provided to the Finance, Audit & Risk Committee to consider and ratify on behalf of the Board of Trustees, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Appendix 6 - Fraud risks

As part of our audit procedures we make enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. However, we emphasise that the responsibility to make and consider your own assessment rests with yourselves and that the trustees, Finance, Audit & Risk Committee and management should ensure that these matters are considered and reviewed on a regular basis.

Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory financial statements usually provides little financial benefit, as compared to say a plc where showing a higher profit could lead to artificial share prices or unearned bonuses. However, falsifying financial statements can be used to permit a fraud or to avoid detection. As a generality, charities represented by its management and its trustees do not actively try to falsify financial statements as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

The trustees should be aware that the Charity Commission provides guidance (updated in September 2022) on how to protect your charity from fraud including information about fraud, how to spot it and what you can do to protect against it.

The Charity Commission's first guiding principle recognises that fraud will always happen. It is therefore important that, as part of setting their overall risk appetite, the trustees consider fraud within their tolerance for the risks associated with the management of the organisation's (and group's) funds. The development and continued assurance of a robust counter fraud control framework should then contribute to the organisation matching the risk appetite and tolerance agreed by the trustees.

We have shared with management our guidance and a framework on conducting fraud risk assessments.

A fraud risk assessment is an objective review of the fraud risks facing an organisation to ensure they are fully identified and understood. This includes ensuring:

- fit for purpose counter fraud controls are in place to prevent and deter fraud and minimise opportunity, and
- action plans are in place to deliver an effective and proportionate response when suspected fraud occurs including the recovery of losses and lessons learnt.

Good practice suggests that to be most effective the risk assessment should be undertaken at a number of levels within the organisation:

- Organisational – to assess the key policy, awareness raising and behavioural (including leadership commitment) requirements that need to be in place to build organisational resilience to counter fraud.
- Operational – a detailed analysis of the fraud risk and counter fraud control framework at the operational level – by function (activity) or individual business unit (including programmes and projects).

Any fraud risk assessment should not be seen as a standalone exercise but rather an ongoing process that is refreshed on a regular basis. Carrying out the fraud risk assessment may reveal instances of actual or suspected fraud. Should this happen next steps will be determined on circumstances, the existing control framework (including any response plan(s)), and in consultation with the key members of the organisation's management team.

Considering risks of fraud

There is evidence that during times of economic instability there is an increased risk of fraud. This may be because resource constraints can reduce internal controls and over sight and also because individuals facing hardship may be more likely to consider fraudulent practices.

The following provides further information on the three kinds of fraud that charities such as IPPF should consider.

a) Frauds of extraction

This is where funds or assets in possession of the charity are misappropriated. Such frauds can involve own staff, intermediaries or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area.

Staff should be made aware of the increasing use of mandate fraud. This is where when the fraudster gets the organisation to change a direct debit, standing order or bank transfer mandate by purporting to be a supplier or organisation to which the charity makes regular payments.

Insufficient due diligence around requests to amend supplier or payroll details has led to payments to unauthorised individuals so sufficient checks in these areas is of increasing importance. All employees should exercise real scepticism and not make any payments which are not properly supported and / or outside the normal payment mechanisms.

The Fraud Advisory Panel latest research shows the following as the fraud risks on the horizon:

- *Staff fraud. As people feel the effects of the cost-of-living crisis on their finances.*
- *Ransomware, particularly targeting network-attached storage. There has been a recent increase in these types of attack.*
- *E-commerce / online shopping fraud. In the lead-up to Black Friday (25 November), Cyber Monday (28 November), and the busy Christmas shopping period.*
- *Supply chain fraud. As some businesses and individuals find themselves in financial difficulty. To boost resilience, government is looking to create standard templates for supply chain contracts.*

A new survey has found that 12% of charities had experienced cybercrime in the previous 12 months, prompting the Charity Commission to highlighting this issue to charities recently and warning them against the risk of online fraud. Furthermore, the survey also pointed to a potential lack of awareness of the risks facing charities online and note that just over 24% have a formal policy in place to manage the risk and only around 55% of charities reported that cyber security was a fairly or very high priority in their organisation. The Commission's discussion of this can be found here: https://www.gov.uk/government/news/charities-at-risk-of-underestimating-online-fraud-as-one-in-eight-experienced-cybercrime-last-year

b) Backhanders and inducements

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures.

There is also the risk that once a donation of money or aid has been authorised and released in the UK, this could be diverted, probably into the underground economy, as a result of inducements paid in the destination country. Charities should be aware of the requirements and extent of the UK Bribery Act 2010, as this extends their liability to actions beyond the shores of the UK and to cover the actions of their intermediaries and agents. Organisations are required to put in place proportionate measures to prevent backhanders and inducements from being paid, either by their workers, agents or intermediaries or to their workers, agents or intermediaries.

c) Frauds of diversion

This is where income or other assets due to IPPF are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very difficult to establish that it is all there. Therefore, ensuring the completeness of income provided to a charity becomes difficult.

It is important to consider the different income streams and when and how they are received. So income received directly into the charity's bank account will be a lower risk than income being received by home based fundraisers.

Appendix 7 - External developments

We have summarised below some of the developments and changes in the charity sector over the recent period which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.

We believe it is important to keep our clients up to date on the issues that affect them and, as a part of our ongoing communication, we regularly hold webinars and therefore encourage you to visit our website (https://www.crowe.com/uk/croweuk/industries/webinars).or register to our mailing list (nonprofits@crowe.co.uk) to stay updated on these. Any webinars which you have missed remain available on demand on our website.

Governance

The Charities Act 2022: Implementation

The Charities Act 2022 (the Act) received Royal Assent on 24 February 2022 and brings into force a number of key changes to the Charities Act 2011, aimed at simplifying a number of processes.

The Charity Commission are currently working through implementing the various changes brought about by the legislation, and have set out an indicative timetable here: https://www.gov.uk/guidance/charities-act-2022-implementation-plan#full-publication-update-history

The key provisions of the Act that came into force on 31 October 2022 are set out below.

Failed appeals

The Act introduces new rules granting the power for trustees to apply cy-près, allowing charities more flexibility in response to a charity appeal that has failed, allowing *donations* to be applied for another charitable purposes rather than having to be returned to donors under certain conditions:

i) The donation is a single gift of £120 or less; and the Trustees reasonably believe that during the financial year the total amount received from the donor for the specific charitable purpose is £120 or less (unless the donor states in writing that the gift must be returned if the charitable purposes fail); or
ii) The donor, after all agreed actions have been taken, cannot be identified or found; or
iii) The donor cannot be identified (for example cash collections)

The Charity Commission published guidance in relation to failed appeals on 31 October 2022, which can be found here: https://www.gov.uk/government/publications/charity-fundraising-appeals-for-specific-purposes

The Fundraising Regulator has also published guidance, available here: https://www.fundraisingregulator.org.uk/more-from-us/news/what-do-if-you-raise-more-donations-you-need-dont-raise-enough-or-cannot-achieve

Payments to Trustees for providing goods to the charity

The Charities Act 2011 provided a statutory power for charities, in certain circumstances, to pay trustees for providing a service to a charity beyond usual trustee duties.

The Act extends this power to allow, in certain circumstances for payments to trustees for providing goods to the charity.

Updated guidance can be found here: https://www.gov.uk/guidance/payments-to-charity-trustees-what-the-rules-are

ESG strategy for Social Purpose and Non Profit organisations

Social purpose and non profit organisations hold themselves to high ethical standards and are often held to a higher standard than other sectors by the general public. As expectations and regulations change worldwide and ESG matters move centre stage, the sector will want and need to ensure it is continuing to set the standard for responsible organisations.

Setting an ESG strategy provides the opportunity to step back, look at where the organisation is, where it wants to get to, and how it can plan to achieve its ambitions.

We have recently published a report to guide charities on developing an ESG strategy, covering the following areas:

- what is ESG?
- why bother?
- integrating ESG into strategy
- governance of ESG
- risk and assurance.

A copy of the report can be obtained here: https://www.crowe.com/uk/insights/esg-social-purpose-and-non-profits

Responsible investments guidance

The Charity Commission ran a public consultation in April 2021 in respect of updated guidance for responsible investments. Previous Charity Commission guidance was based on the outdated Bishop of Oxford case in 1992.

The outcome of this case recognised that there were times when a charity may wish to pursue an ethical approach to its investments, but that this was a secondary consideration to maximising investment income. The results of the Charity Commission consultation were published on 18 August 2021.

During the consultation two charities were granted permission to bring a case relating to responsible investment to the High Court, The Ashden Trust and the Mark Leonard Trust.

Their investment policies, approved by the High Court, were based on scientific evidence of climate change and excluded, as far as practically possible, investments not aligned with the goals of the Paris Agreement. The charities were seeking clarification of the law. Previous case law in the 1992 Bishop of Oxford case established the principle that charity trustees should maximise return on their investments and ought not to take into account ethical or moral considerations that could cause financial detriment to the charity. There were exceptions to these where an investment directly conflicted with the charity's purposes or indirectly conflicts with its work.

The new High Court ruling charities are able to exclude specific investments from their portfolio should they not align with their charitable purpose, as long as it can be demonstrated that appropriate decision-making processes have been followed. The below extract of paragraph 78 of the judgement clarifies the relevant law that should be referred to when considering responsible investment policies:

1. *"Trustees' powers of investment derive from the trust deeds or governing instruments (if any) and the Trustee Act 2000.*
2. *Charity trustees' primary and overarching duty is to further the purposes of the trust. The power to invest must therefore be exercised to further the charitable purposes.*
3. *That is normally achieved by maximising the financial returns on the investments that are made; the standard investment criteria set out in s.4 of the Trustee Act 2000 requires trustees to consider the suitability of the investment and the need for diversification; applying those criteria and taking appropriate advice is so as to produce the best financial return at an appropriate level of risk for the benefit of the charity and its purposes.*
4. *Social investments or impact or programme-related investments are made using separate powers than the pure power of investment.*
5. *Where specific investments are prohibited from being made by the trustees under the trust deed or governing instrument, they cannot be made.*
6. *But where trustees are of the reasonable view that particular investments or classes of investments potentially conflict with the charitable purposes, the trustees have a discretion as to whether to exclude such investments and they should exercise that discretion by reasonably balancing all relevant factors including, in particular, the likelihood and seriousness of the potential conflict and the likelihood*

and seriousness of any potential financial effect from the exclusion of such investments.

7. *In considering the financial effect of making or excluding certain investments, the trustees can take into account the risk of losing support from donors and damage to the reputation of the charity generally and in particular among its beneficiaries.*
8. *However, trustees need to be careful in relation to making decisions as to investments on purely moral grounds, recognising that among the charity's supporters and beneficiaries there may be differing legitimate moral views on certain issues.*
9. *Essentially, trustees are required to act honestly, reasonably (with all due care and skill) and responsibly in formulating an appropriate investment policy for the charity that is in the best interests of the charity and its purposes. Where there are difficult decisions to be made involving potential conflicts or reputational damage, the trustees need to exercise good judgment by balancing all relevant factors in particular the extent of the potential conflict against the risk of financial detriment.*
10. *If that balancing exercise is properly done and a reasonable and proportionate investment policy is thereby adopted, the trustees have complied with their legal duties in such respect and cannot be criticised, even if the court or other trustees might have come to a different conclusion."*

A full copy of the judgement can be found here: https://www.bailii.org/ew/cases/EWHC/Ch/2022/974.html

The Charity Commission has indicated that it will publish updated CC14 guidance in Summer 2023.

Guidance on hybrid working launch by ACAS

ACAS recently published guidance for employers on hybrid working, following the extended period of remote working as a result of the coronavirus pandemic.

The guidance is broken down into the following five sections:

- Considering hybrid working for your organisation
- Consulting and preparing to introduce hybrid working
- Creating a hybrid working policy
- Treating staff fairly in hybrid working; and
- Supporting and managing staff in hybrid working

The guidance also considers other legal matters that employers should consider, including data and privacy issues, health and safety issues and working time requirements.

The guidance can be found **here**.

Charity Commission: Consultation on Charity Use of Social Media

On 17 January 2023 the Charity Commission published a consultation on draft guidance for charities on their use of social media.

The aim of the guidance is to help trustees improve their understanding in this area, and to encourage charities to adopt a policy on social media as a way to set their charity's approach. The guidance does not introduce new trustee duties but seeks to make clear how existing duties are relevant to a charity's use of social media.

The guidance sets out that social media use can raise issues and risks for charities, relating to problematic content:

- posted or shared by the charity on its own social media channels
- posted by the public or third parties on a charity's social media channel
- posted on a personal social media account that can be reasonably associated with the charity

It is important that charities have their say and engage with the consultation, to ensure that the relevant considerations can impact decision making.

The consultation closes on 14 March 2023, and response can be submitted using the online tool. The consultation can be found here: **https://www.gov.uk/government/consultations/draft-guidance-charities-use-of-social-media**

Compliance

Harpur Trust vs Brazel – Supreme Court decision

The recent decision from the Supreme Court in July 2022 brings to an end the long-standing Harpur Trust v Brazel dispute and provides welcome certainty to employers surrounding the method by which payments of holiday pay are made to non-regular workers.

Non-regular workers impacted by the judgement are those workers or employees on permanent contracts who work irregular hours and are paid on an hourly or daily basis, including individuals engaged under zero-hours contracts. The decision does not impact full-time workers, part time workers with regular hours or workers with a fixed salary.

Worker is a classification of employment status under UK employment law, where an individual has entered into or works under a contact of employment, typically with no regular or guaranteed hours, and can include individuals engaged as contractors.

What is the impact of the judgement?

Many organisations adopted the '12.07% method' of calculating holiday pay in line with guidance issued by ACAS, which has since been withdrawn. The Supreme Court's judgement has confirmed that this method should no longer be applied by employers when calculating the value of holiday pay for non-regular workers.

Holiday pay for permanent workers with irregular hours should be calculated with reference to work undertaken across a 52-week period, which is then multiplied by the 5.6 weeks annual leave entitlement. This change can produce some unusual results (e.g. a worker who is usually entitled to one week's pay being given 5.6 weeks holiday entitlement), however in their judgement the Supreme Court noted that any slight favouring of such workers was not of a magnitude that would require wholesale revision of the general rules.

Now the position in respect to holiday pay calculations is clear, organisations should consider the wider implications of this decision. The decision has been widely publicised, and there is currently a high level of activity with unions (UNISON was an intervener on the case). It may be that organisations will receive communication from trade unions or staff directly, requesting back pay.

What should organisations do now?

- Review current holiday pay arrangements and calculations to ensure these are in line with the new approach.
- Quantify the potential back-pay liability. Where an underpayment has arisen, there is a risk of a potential claim from an employee. Most claims going to employment tribunal can be backdated for a period of 2 years from the date of the most recent deduction from pay.
- Where the underpayment is considered material to the financial statements, judgement will be required over whether there is a legal or indeed a constructive obligation leading to recognition of a provision or a contingent liability in the financial statements.
- Employment status is frequently challenged, and therefore employers should also assess the risk of any of their contractors being found to be workers or employees as this could lead to additional liabilities.
- Organisations might also consider the basis on which they continue to employ irregular workers. A review might consider whether the mix of fixed-term contracts, consultants and permanent staff on variable contract hours is still appropriate

Useful links

Gov.uk – https://www.gov.uk/employment-status

ACAS (employment status definitions) - https://www.acas.org.uk/checking-your-employment-rights

Updated guidance on Campaigning and political activity

In November 2022, the Charity Commission published updated guidance on campaigning and political activity for charities (CC9) following the passing of the Elections Act 2022.

Although the basic legal position regarding charity campaigning has not changed, this guidance focuses first on the freedoms and possibilities for charities to campaign, and then on the restrictions and risks that trustees must bear in mind.

As with previous guidance, it also includes guidance on areas of good practice.

The updated guidance can be found here: https://www.gov.uk/government/publications/speaking-out-guidance-on-campaigning-and-political-activity-by-charities-cc9

Charities and terrorism

The Charity Commission guidance on ‘Charities and Terrorism’, first published in December 2012, has been updated in November 2022.

The guidance forms Chapter 1 of the Charity Commissions compliance toolkit, which provides advice and information on key aspects of the UK’s counter-terrorism legislation, highlights how particular provisions are likely to affect charities and their work, explains the various ‘terrorism lists’ that exist and advises trustees what to do if they discover their charity may be working with or connected to people or organisations on terrorism lists.

The updated toolkit signposts to new guidance from the Crown Prosecution Service on proscription offences and terrorist financing offences and cases involving humanitarian, development and peacebuilding work overseas.

The updated toolkit can be found here:

https://www.gov.uk/government/publications/charities-and-terrorism

Fundraising Regulator: Annual complaints report

In October 2022 the Fundraising Regulator has published its latest Annual Complaints Report which covers the period 1 April 2021 to 31 March 2022. The report analyses complaints received by the Fundraising Regulator and complaints reported to 56 of the UK’s largest fundraising charities.

The number of complaints to the sample charities rose proportionally for most methods in line with increased fundraising activity – with 13 of the 23 fundraising methods having increased complaint numbers in 2021/22 compared to 2020/21. However, the overall number of complaints had decreased since 2019/20 which is reflective of changes in fundraising activity and public mood during the pandemic, as well as demonstrating the sector’s commitment to high standards of fundraising.

Over the same period, complaints about fundraising methods including charity bags (77), digital (74), collections and addressed mail (both 48) accounted for the majority of the 381 complaints within the Fundraising Regulator's scope. Vulnerability was also a theme threaded into many of the complaints we received. We encourage charities to develop policies to guide how fundraisers interact with people in vulnerable circumstances and keep up to date records about donors who may be vulnerable.

You can see the full report here.

Financial and other reporting

Charity Commission: Changes to the Annual Return

In June 2022, the Charity Commission began consulting on a range of changes to its Annual Return, through which it hopes to gather more data about charities. There have not been major changes to the Annual Return since 2018, and the Commission has stated its desire to be more data driven and the Annual Return feeds many of the Commissions analyses.

The consultation closed on 1 September 2022, and the Charity Commission published its consultation response on 21 December 2022.

The updated Annual Return includes 17 new questions, a number of which are aimed at gathering more in-depth information on charity income streams and the extent of any overseas activities. Annex 8 contains the full list of the revised Annual Return questions that will be set out in the Charities (Annual Return) Regulations 2022 that came into force on 1 January 2023.

The Annual Return needs to be completed by all charities with an annual income of £10,000 plus, within 10 months of the end of their financial year.

Full details of the outcome of the consultation, along with guidance on completing the annual return can be found here: https://www.gov.uk/government/consultations/charity-commission-revisions-to-the-annual-return-2023-25

FRC publishes "What makes a good Annual Report and Accounts" report

In December 2022, the FRC published its latest report on the attributes of a good Annual Report and Accounts ('ARA') from their perspective as an improvement regulator. It draws on previous FRC publications alongside their day to day work.

The report states that *'A high-quality ARA:*

- *complies with relevant accounting standards, laws and regulations, and codes;*
- *is responsive to the needs of stakeholders in an accessible way; and*
- *demonstrates the corporate reporting principles and effective communication characteristics outlined in this publication.'*

Whilst the report is focused on corporate reporting, there are a number of quick tips and pointers, along with examples, which might be of interest when preparing your Trustees' Annual Report.

The full report can be found here: https://www.frc.org.uk/getattachment/d3e86b16-22b6-4aa7-a6fe-1dc83657335f/What-Makes-a-Good-Annual-Report-and-Accounts.pdf

Sustainability Reporting and the Charity SORP

Sustainability and environmental issues continue to be high priority for all sectors. The Charity SORP Committee produced a briefing note reflecting on the current approach to sustainability reporting.

The Committee sought to identify whether elements of sustainability reporting should be introduced into the trustees' annual report, and discuss preferred options should this be the case.

The current SORP ask charities to identify the difference their work has made to society as a whole.

The Committee noted that additional support would likely be required to enable charities to comply with additional reporting requirements, and the need to address the scope of the sector. The current requirements are different for large charities, this would need to remain consistent in order to avoid burdening smaller charities.

The full briefing can be found here.

Our guidance on climate change can be accessed here.

We have recently published a review of annual reports, all including a relevant disclosure, which identified a wide variety in the level of detail provided and the format used. A copy of our report, which includes examples of best practice and areas of improvement can be obtained here.

Guidance on Fundraising Reporting Requirements

The Fundraising Regulator has published new research and updated guidance to support compliance with the fundraising reporting requirements in the Charities (Protection and Social Investment) Act 2016).

The Fundraising Regulator has reviewed the annual reports of almost 200 charities with income over £1m to provide a benchmark for the sector and highlight good practice and identify areas for improvement.

The research had noted that an increasing number of charities reported on their fundraising approaches and complains compared to previous years, however only a low proportion of the reports reviewed included a statement on how fundraising carried out on their behalf is monitored or a statement of how they protect the public and vulnerable donors.

The results of the review can be found here: https://www.fundraisingregulator.org.uk/more-from-us/resources/charities-act-2016-analysis-july-2022

and the updated guidance can be found here: https://www.fundraisingregulator.org.uk/more-from-us/resources/charities-act-2016-fundraising-reporting-requirements-guidance

Taxation

Autumn Statement 2022

The Chancellors Autumn Statement 2022 was published in November 2022.

The key measures relevant for charities are set out below. A copy of the full statement can be found here: https://www.gov.uk/government/publications/autumn-statement-2022-documents

National Minimum Wage (NMW) and National Living Wage (NLW)

Following recommendations from the Low Pay Commission, the NLW will increase for individuals aged 23 and over to £10.42 an hour from 1 April 2023.

The NMW will also increase from 1 April 2023 as follows:

- Increasing the rate for 21-22 year olds to £10.18 an hour;
- Increasing the rate for 18-20 year olds to £7.49 an hour;
- Increasing the rate for 16-17 year olds to £5.28 an hour;
- Increasing the apprentice rate to £5.28 an hour; and
- Increasing the accommodation offset rate to £9.10 an hour

Income tax additional rate threshold

The income tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023.

Corporation tax rate

The planned increase in the Corporation Tax rate to 25% for companies with over £250,000 in profits will go ahead. Small companies with profits up to £50,000 will continue to pay corporation tax at 19%, with profits between these two figures subject to a tapered rate.

Business Rates: Retail, Hospitality and Leisure Relief

Support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023-24.

VAT: Changes to Penalty Regime

For VAT accounting periods starting on or after 1 January 2023 there are new penalties for VAT returns that are submitted late and VAT which is paid late, in addition the way interest is charged has also changed. The changes are aimed at simplifying and separating penalties and interest.

The system has changed to a penalty points system, where for each return submitted late, a penalty point is issued. The penalty point threshold is determined by the accounting period, with a higher threshold for more frequently submissions. When the threshold is reached, a penalty of £200 will be issued, with a further £200 penalty for each further late submission.

Penalty points will have a lifetime of 2 years, after which they will expire. The period is calculated from the month after the month in which the failure occurred, e.g. submission due January 2024, so the penalty point will expire in February 2026.

Once a taxpayer reaches the threshold, all points accrued will be reset to zero when the following conditions are met:

- A period of compliance; and
- The taxpayer has submitted all submission in the previous 2 years (even if late).

The new late payment penalty will apply in instances where the return is submitted on time but the payment is not. This penalty considers the length of the delay in making payment and the penalty increases over time.

As part of the new penalty regime, HMRC has also updated its Late Payment Interest (‘LPI’) rules to bring these in line with other tax regimes.

Full details of the updated regime can be found here: https://www.gov.uk/guidance/penalty-points-and-penalties-if-you-submit-your-vat-return-late

Appendix 8 - Understanding the changes to ISA (UK) 315

ISA (UK) 315 (Revised) comes into effect for periods starting in December 2021 and later (i.e. years ending 31 December 2022). The changes to the standard are fairly fundamental, and are intended to change the way that audit firms approach the identification of risks of material misstatement[1], and by extension, how they respond to these risks. We have set out in the table below the key changes to ISA (UK) 315 and the potential impact on the audit of IPPF.

Key change	**Potential impact on the audit**
A more robust risk identification and assessment process, with a separate assessment required of inherent risk and control risk	Additional requests for information to enhance understanding of the systems, processes and controls, including but not limited to: - More information regarding the entity's risk assessment process and monitoring of internal controls - Policies and procedure manuals, flowcharts and other supporting information to support our understanding of the information systems relevant to the preparation of the financial statements
Enhanced procedures relating to exercising professional scepticism, and additional documentation requirements	Additional requests for information to clarify areas where evidence obtained appears to contradict information already considered in the audit.
Increased focus on information technology	Additional requests for information to enhance understanding of the IT environment, including: - Information on the IT applications used by IPPF, including the extent of any automated procedures - Information on the supporting IT infrastructure (i.e. network, operating systems and related hardware and software) and ant third party hosting or outsourcing of IT - information on the access controls in place over the use of IT applications, including the setting up and removal of user accounts

[1] Risk of material misstatement: The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

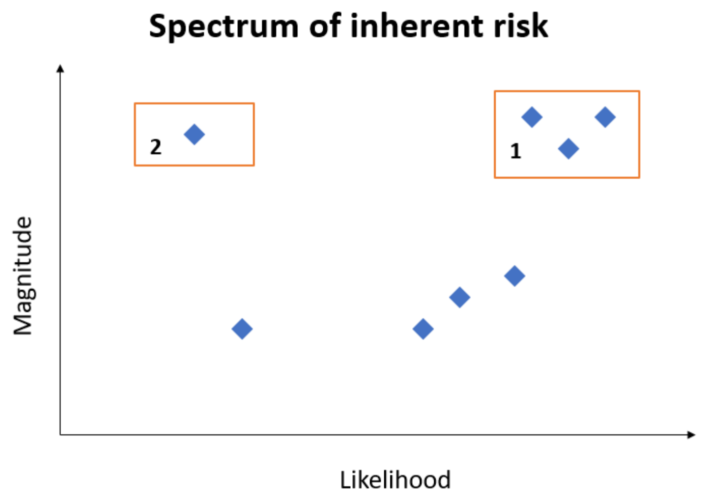
(a) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk – The risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's controls.

Key change	Potential impact on the audit
Inclusion of specific controls where auditors are required to identify and perform design and implementation thereon.	Additional requests for information in respect of the systems, processes and controls in respect of: - Non-standard journal entries - where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments - Standard journal entries - where the journal entries are automated or manual and are susceptible to unauthorized or inappropriate intervention or manipulation - Other controls identified based on auditor judgement, including but not limited to: o Controls that address risks that are assessed as higher on the spectrum of inherent risk (not determined to be a significant risk); o Controls related to reconciling detailed records to the general ledger; or o Complementary user entry controls, if using a service organisation.
A new stand-back requirement when an audit is nearing completion, to evaluate classes of transactions, account balances and disclosures that are material (either quantitatively or qualitatively) but have not been identified as significant and confirm the previous assessed remains appropriate.	Additional audit work may be required where the assessed risk of material classes of transactions, account balances and disclosures are re-evaluated as higher than at the completion of the audit planning.

ISA (UK) 315 (Revised) also introduces the concept of a *'spectrum of inherent risk'*. Risk is considered in the context of how, and the degree to which, inherent risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

The assessment of an inherent risk close to the upper end of the spectrum is indicative of a significant risk (Box 1), however the combination of likelihood and magnitude means that a significant risk could potentially have a low likelihood but the magnitude could be very high if it occurred (Box 2).



We have set out below further details on the inherent risk factors, along with examples of each within a non-profit context.

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Complexity	Arises either from the nature of the information or in the way that the required information is prepared, including when such preparation processes are more inherently difficult to apply.	- A complex group structure, with multiple subsidiaries, branches, in disparate locations and/or joint ventures, which may also include overseas operations - A complex IT environment, such as fundraising information held in a CRM system that is not integrated with the accounting system - The calculation of the actuarial valuation of defined benefit pension schemes
Subjectivity	Arises from inherent limitations in the ability to prepare required information in an objective manner, due to limitations in the availability of knowledge or information, such that management may need to make an election or subjective judgment about the appropriate approach to take and about the resulting information to include in the financial statements. Because of different approaches to preparing the required information, different outcomes could result from appropriately applying the requirements of the applicable financial reporting framework. As limitations in knowledge or data increase, the subjectivity in the judgments that could be made by reasonably knowledgeable and independent individuals, and the diversity in possible outcomes of those judgments, will also increase.	- The assessment of whether a grant is performance related, and the associated impact on income recognition - The selection of the accounting policy adopted in respect of legacy income - Selection of assumptions used in preparing the actuarial valuation of defined benefit pension schemes - Determination of the useful economic life and residual value of fixed assets - Determination of any provisions for bad and/or doubtful debts - The assessment of any provisions for dilapidations
Change	Results from events or conditions that, over time, affect the entity's business or the economic, accounting, regulatory, industry or other aspects of the environment in which it operates, when the effects of those events or conditions are reflected in the required information.	- Loss of a major funder and the corresponding impact on going concern - Development of a new income stream or activity - Expansion into new locations, such as the opening of an overseas branch - A change in legislation and any impact on operations, for example changes to health and safety legislation

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Uncertainty	Arises when the required information cannot be prepared based only on sufficiently precise and comprehensive data that is verifiable through direct observation. In these circumstances, an approach may need to be taken that applies the available knowledge to prepare the information using sufficiently precise and comprehensive observable data, to the extent available, and reasonable assumptions supported by the most appropriate available data, when it is not. Constraints on the availability of knowledge or data, which are not within the control of management (subject to cost constraints where applicable) are sources of uncertainty and their effect on the preparation of the required information cannot be eliminated.	- The outcome of a pending litigation or claim, and the determination of any potential liability or contingent liability disclosure - The assessment of any provisions for dilapidations - The assumptions and judgements applied in the preparation of budgets and forecasts to support going concern
Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk	Results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in preparing the information. Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional. Such indicators include incentives or pressures insofar as they affect inherent risk (for example, as a result of motivation to achieve a desired result, such as a desired profit target or capital ratio), and opportunity, not to maintain neutrality.	- Compliance with funding conditions, including the allocation of expenditure and the assessment of any provision in respect of clawbacks - Loan covenants at risk of being breached - Significant transactions with related parties - Significant amount of non-routine or non-systematic transactions including intercompany transactions and journal entries at the reporting date.

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Other inherent risk factors	Other inherent risk factors, that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure may include: • The quantitative or qualitative significance of the class of transactions, account balance or disclosure; or • The volume or a lack of uniformity in the composition of the items to be processed through the class of transactions or account balance, or to be reflected in the disclosure.	- Lack of personnel with appropriate accounting and financial reporting skills. - Control deficiencies – particularly in the control environment, risk assessment process and process for monitoring, and especially those not addressed by management. - Past misstatements, history of errors or a significant amount of adjustments at period end.

ISA (UK) 315 requires auditors to consider that the risk of material misstatement may occur at two levels – the overall financial statement level, and at the assertion level for classes of transactions, balances and disclosures.

Assertions are defined in ISA (UK) 315 as *'Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement.'*

We have set out below the assertions and a short description of how they pertain to classes of transactions, balances and disclosures.

Assertions about classes of transactions and events, and related disclosures, for the period under audit	Assertions about account balances, and related disclosures, at the period end
(i) Occurrence—transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.	(i) Existence—assets, liabilities and equity interests exist.
(ii) Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.	(ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
(iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.	(iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

Assertions about classes of transactions and events, and related disclosures, for the period under audit	**Assertions about account balances, and related disclosures, at the period end**
(iv) Cut off—transactions and events have been recorded in the correct accounting period.	(iv) Accuracy, valuation and allocation—assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
(v) Classification—transactions and events have been recorded in the proper accounts.	(v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
(vi) Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.	(vi) Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

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