



Year ended 31 December 2012 Audit Findings Report

The Audit Committee
International Agency for the Prevention of Blindness
London School of Hygiene and Tropical Medicine
Keppel Street
London WC1E 7HT

22 March 2013

Dear Committee Members,

Audit for the year ended 31 December 2012

Following the completion of our audit fieldwork on the financial statements of International Agency for the Prevention of Blindness (“IAPB”) and its subsidiary IAPB Trading Ltd for the year ended 31 December 2012 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audit and of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with Peter Ackland and Blandine Labry during our audit of the financial statements and at our closing meeting on 18 March 2013. Peter and Blandine have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

Matters from our audit

We have set out in Section 2 of this report comments on the matters arising from our audit work which we wish to bring to your attention. The majority of these comments highlight specific matters judgements / estimates that have been made in the preparation of the draft statutory financial statements as well as certain comments on the overall audit process.

We would like specifically to draw your attention to the following matters.

- ▶ Seeing is Believing programme
- ▶ Grant income (non-Seeing is Believing)
- ▶ Grant expenditure (non-Seeing is Believing)

Further details on the above are included in this report.

Systems and controls

During our audit fieldwork, as required by International Standards on Auditing (UK & Ireland), we considered your systems of internal financial control as well as the accounting procedures and other aspects of your business processes relevant to our audit. We are able to report that no major issues came to our attention from our review of your relevant systems and controls. However, we have included further comments later in this report where we have identified potential improvements during our audit work which we believe we should bring to your attention. You should note that our evaluation of the systems of control at IAPB was carried out for the purposes of our audit only and accordingly it is not intended to be a comprehensive review of your business processes.

Financial statements

The trustees of IAPB 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.

Acknowledgements

We would like to express our appreciation for the assistance provided to us by the finance team and the other staff at the Charity during our audit.

Use of this report

This report has been provided to the Audit 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.

Yours faithfully

Crowe Clark Whitehill LLP

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1. Introduction and audit approach

We have pleasure in setting out in this document our report to the Board of IAPB for the year ended 31 December 2012.

Audit completion

We have substantially completed the audit subject to the satisfactory completion of the following matters.

- ▶ Completion of the post-Balance Sheet events review.
- ▶ Review of the final financial statements.
- ▶ Receipt of the signed letter of representation.
- ▶ Related party declarations (Jenny Hourihan, and Dr Taraprasad Das – LVP finance to confirm)

On satisfactory completion of these outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements of IAPB. The first three items would normally be completed just prior to us signing our report.

Matters from our audit

We are required by International Standards on Auditing (UK and Ireland) (“ISAs”) to communicate to you our views about any significant qualitative aspects of the accounting practices of IAPB, including accounting policies, accounting estimates and financial statement disclosures, as well as any difficulties encountered during the audit, the written representations we are requesting and any other matters which we believe are significant to your oversight of the financial reporting process.

We are also required to communicate to you if relevant matters arising during the audit in connection with the entity's related parties, matters involving non-compliance with laws and regulations that come to our attention during the course of the audit and if we have identified or suspect fraud involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement in the financial statements.

All matters arising from our audit which we wish to bring to your attention are set out in the following sections of this report.

We have also provided separately a draft of the representation letters for IAPB which we will be requesting from the Board when the financial statements are approved.

Audit procedures

Our audit procedures, which are designed primarily to enable us to form an opinion on your financial statements, were carried out in accordance with International Standards on Auditing (UK and Ireland) (“ISAs”). Our work continues to combine substantive procedures involving direct verification of balances and transactions, including obtaining confirmations from third parties where we considered this to be necessary, with a review of certain of your financial systems and controls. We also considered as a part of our audit the overall neutrality, consistency and clarity of the disclosures in your financial statements.

We summarised in our Audit Planning Report the range of risks from our understanding of IAPB, its people and environment, and the system of internal control which we have taken into account in planning our audit work so as to reduce the risk of material misstatement to an acceptable level. We also noted certain risks which we assessed as requiring special audit attention (“significant risks” or “specific risks”) as well as other transactions and balances which we identified for our audit focus.

Based on the audit work we have carried out we have not identified any changes to our initial assessment of risk. We have been able to carry out the audit tests on the specific areas of risk as set out in our Audit Planning Report and, where appropriate, have commented further on these in this report.

We have been able to undertake our work as set out in our engagement letter dated 23 November 2011 and our Audit Planning Report dated 17 December 2012 addressed to The Audit Committee. No restrictions were placed on our audit.

Audit materiality

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 judgment but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements. Whether adjustments are material to the “true and fair” view can only be judged in the particular circumstances of the items and their impact on the financial statements to which they relate. Materiality has been considered having regard to the overall financial statement totals, the relevant individual balance, the type of transaction and the disclosures.

The audit materiality for the financial statements as a whole set as part of our audit planning was take account of the level of funds held by IAPB and was set at approximately 1% of total incoming resources. We have considered this level of materiality based on the draft accounts for year ended 31 December 2012 and are satisfied that it continues to be appropriate with 1% of incoming resources being \$200,000.

We report all individual misstatements in excess of \$4,000 (2% of overall materiality). We consider identified misstatements in qualitative as well as quantitative terms. There are no unadjusted items identified from our audit in excess of the above trivial limit.

Legal and regulatory requirements

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

- ▶ Companies Act 2006
- ▶ Charities Act 2011
- ▶ The Charities (Accounts and Reports) Regulations 2008
- ▶ Statement of Recommended Practice, Accounting and Reporting by Charities (issued in 2005)
- ▶ Applicable accounting standards

Trustees’ responsibilities

Under the provisions of the Companies Act, the Directors’ Report is required to include a statement confirming for each director who was a director at the time of the approval of the financial statements that:

- ▶ they have each taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company’s auditors are aware of that information; and
- ▶ so far as they are aware there is no relevant audit information of which the company’s auditors are unaware.

These statements have been included as required and are also referred to in our representation letter.

Going Concern

In the present financial climate, ever greater emphasis is being placed on ensuring the validity of the going concern assumption in the preparation of period end accounts. It is therefore very important that the current period’s going concern assessment is even more substantial than that for recent periods.

“Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009” was published by the FRC in October 2009 and is effective for accounting periods ending on or after 31 December 2009. The Guidance is based on three principles covering the process which directors should follow when assessing going concern, the period covered by the assessment and the disclosures on going concern and liquidity risk. The examples provided by the FRC indicate that they see this as good practice even where going concern is not in doubt.

The Guidance was issued for all companies and in particular addresses the statement about going concern that should be made by directors in their annual report and accounts. Last year appropriate wording was included in IAPB accounting policies note and this wording has been repeated in the 2012 financial statements.

Corporate governance and fraud

As auditors, we are required to document an understanding of how “those charged with governance” exercise oversight of management’s processes for identifying and responding to the risks of fraud in IAPB and the internal controls that management has established to mitigate these risks.

We have not been made aware of any significant matters which would affect our assessment of audit risk during our audit work although this will need to be confirmed by the trustees up to the date of approval of the financial statements.

Independence and ethics

We are required by the Ethical Standards issued by the Auditing Practices Board to inform you of any matters that bear upon our objectivity and independence.

Crowe Clark Whitehill LLP has procedures in place to ensure that its partners and professional staff comply with both the APB’s Ethical Standards and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As we previously reported in our Audit Planning Report, we are not aware of any relationships between Crowe Clark Whitehill LLP and IAPB that would threaten the firm’s audit independence or the objectivity of the audit partner and audit staff. In our professional judgement Crowe Clark Whitehill LLP is independent within the meaning of APB Ethical Standards and we have not identified any further issues with regard to our integrity, objectivity or independence since the date of our Audit Planning Report.

2. Key areas of audit focus

Our work has been carried out in accordance with the audit plan presented to you. Our audit processes include reviewing the accounting practices of IAPB and the disclosures made in the statutory financial statements and the annual report of the trustees. Details of key matters from this review and from our other audit work and related discussions with the charity's management have been recorded below.

1. Seeing Is Believing

The bulk of IAPB's expenditure relates to the 'Seeing is Believing' programme, a partnership with Standard Chartered bank. In 2012, \$17.1m of income was recognised by IAPB in respect of this programme. Standard Chartered raises money through staff fundraising efforts which is then matched by the bank. Fundraising for Phase 4 of the programme came to an end in 2012 and Phase 5 began in early 2013. These funds were predominantly received in order that IAPB could make grants to a range of programmes undertaken by IAPB member organisations.

Processes over 'Seeing is Believing' income

Seeing is Believing income is raised globally by Standard Chartered. In the UK, the income is predominantly received through Worldpay. Where funds are raised overseas, these are in most cases remitted to the UK by direct bank transfer.

During the interim audit visit in January 2013, we visited Standard Chartered Bank and sought to understand the controls in place. The key control in place for UK income is that the amount received per the bank is reconciled to the Worldpay listings on a monthly basis. Where income is remitted from overseas offices, in most cases the Seeing is Believing Finance Manager is informed of the amount due to be received and then this is transferred. The income is then grouped and journals prepared accordingly. These journals are then posted in both the accounting system at Standard Chartered Bank (Sage) and the accounting system at IAPB (Dimensions).

As part of our interim visit, we also considered controls over the other methods of donations (cheques and cash, direct bank transfers, GAYE and CAF donations). We also considered the process by which Standard Chartered matches the donations made. No issues were noted in the course of our work.

Recognition of income

We discussed with management at IAPB how Seeing is Believing income is recognised. Previously income received in the UK was recognised on receipt; prior to this point the specific amounts raised by employees were not known to IAPB or the Seeing is Believing Finance Manager. In addition, for those countries that could not remit funds to the UK due to local restrictions, the income was only recognised when remitted to local partners as this was deemed as the point at which IAPB knew of the amounts it was entitled to.

In 2012, a process was put in place for local offices to report how much related to Seeing is Believing by transferring funds into specific Seeing is Believing bank accounts. This is particularly important for those countries that were unable to remit funds to the UK as IAPB and Standard Chartered Bank are now able to accurately measure the amount of funding available for distribution. Consequently the income reported has been recognised in the 2012 accounts, as the SORP income recognition criteria have been met.

There are four countries, Taiwan, China, Nepal and Pakistan where IAPB does not recognise locally raised income as there are restrictions prohibiting Seeing is Believing from fundraising and therefore the campaigns are run in the name of other partner organisations such as Orbis in China.

Restatement of prior year accounts

As part of the preparation for this year's accounts, management reviewed the fundraising literature for income raised in China with a partner organisation Orbis. Management note that it is clear from the fundraising literature that the income is raised on behalf of Orbis and should not be recognised in the books of IAPB. There was \$378k of income and \$378k of expenditure recognised in accounts of IAPB for the year ended 31 December 2011 which should not have been. As this is an error in the prior year accounts, it has been necessary for IAPB to restate the income and expenditure amounts for the

2011 comparative. There is no impact on the reserves position. This matter has been disclosed in the financial statements.

Testing performed – Income

As part of our work, we obtained a global bank letter from Standard Chartered which incorporated all Seeing is Believing accounts worldwide and included balances that had not been remitted to the UK by the year end. We also checked that those accounts that were linked with partners were correctly excluded from income. We have also considered the completeness of income recognised in the accounts by reviewing a sample of returns from local Standard Chartered offices. No issues were noted in the course of our work.

We selected a sample of funds raised for the Seeing is Believing project for testing. We agreed a sample of items from the (Sage) nominal ledger to supporting documentation, and a sample of items directly from supporting documentation to the ledger in order to confirm completeness of income recorded. In all cases, we also ensured the amount was included in the IAPB accounting systems and where relevant, we tested the exchange rate used to confirm that it is reasonable. We also selected a sample of income accrued and confirmed that it has been correctly accrued.

As part of our work, we compared income recorded in the draft accounts (prepared using the IAPB accounting system) with that recorded in Sage by Standard Chartered. The variance of \$4.2m was in relation to unmatched income for SIB phase 4 which has been recorded in accrued income and which we have tested separately and \$323k relating to costs covered by SCB for salaries and overheads which are not recorded in Sage. We have obtained confirmations from the Bank that full amount of the accrual is recoverable. We also noted that \$3.6m has been received since the year end. Based on this, and the substantive testing noted, we are satisfied that the two systems are materially consistent.

We also performed analytical review over income understood reasons for significant variances against budget. Our testing in this area was satisfactory.

Financial Times appeal income received by Sightsavers

We discussed at the planning meeting the recognition of the Financial Times appeal income. As a result, we agreed with management that this income

should not be recognised within the IAPB accounts. We confirmed during the audit that this has been correctly excluded from income.

Controls over grant payments

Our work also focussed on the grants paid through Seeing is Believing funding. We considered the controls in place over these grants including partner selection and monitoring.

We also considered the controls over grant payments made to partners in the Seeing is Believing programme. The key control is that a drawdown request is prepared by the Seeing is Believing Project Accountant. This then requires two IAPB signatories in order for the payment to be made. No issues were noted in respect of this process.

We noted that a control is in place whereby recipients of Seeing is Believing funds provide a receipt for the funds based on a template.

Testing performed – grant expenditure

In addition to understanding and documenting the controls in place over grant expenditure, we also performed substantive procedures as follows:

- Confirmed that a sample of grants had been correctly recorded in the accounting systems, paid out of the bank and authorised in line with the above procedures;
- Reviewed the commitments in place at 31 December 2012 in order to confirm that they were appropriately disclosed within the draft accounts and that cut-off is accurate;
- Selected a sample expenditure accrued and confirmed that it has been appropriately treated within the accounts.
- Performed analytical review over expenditure and understood reasons for significant variances; and
- Carried out our assessment of fraud and error (refer to section 4 of this document)

There were no other significant issues noted in the course of our work.

2. Grant income (non-Seeing is Believing)

In addition to Seeing is Believing, IAPB receive grants from other sources (amounting to \$3.6m in 2012). In certain cases, if grant income is not properly managed, then the risk of claw back is high.

IAPB's donors vary in their payment and reporting procedures. The varying contracts and procedures adopted by funders make the area of income recognition an area of judgement for organisations such as IAPB. 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 be performance criteria attached to the grants received which would impact on the establishment of entitlement to the grant.

In addition, programmes funded by such donors carry an increased risk for the organisation as any ineligible expenditure incurred by IAPB is likely to be 'clawed-back' by the donor, with such payments being made from the organisation's unrestricted funds.

Work performed

At the year end, our focus was on understanding the material funding agreements in place and considering the implications of any performance criteria, restrictions or conditions attached to the grants.

As part of our audit procedures we:

- Reviewed IAPB's income recognition policy in relation to grant income;
- Reviewed IAPB's procedures for identifying restrictions and conditions;
- Reviewed levels of grant debt held at year end and investigated aged donor debts for instances of dispute and/or withheld funding;
- Scrutinised funding agreements so as to understand income recognition, terms, reporting requirements, and claw back risk; and
- Confirmed with management that no clawbacks occurred in the year.

We have noted one point with regards to signed agreements in appendix 1.

Lack of formal agreement for one grant

We noted one issue with respect to funds received from Sightsavers for which no formal signed agreement existed. Despite this, we understand that email correspondence and a draft agreement was drawn up. We recommend that steps should be taken to formalise the agreement and a formal agreement drawn up.

3. Grant expenditure (non-Seeing is Believing)

Whilst the bulk of IAPB's grant expenditure is incurred through the Seeing is Believing programme, IAPB also makes grants to outside of this programme. In 2012, this amounted to expenditure of approximately \$1.5m.

We documented our understanding of the design and implementation of key controls to manage and report on grants. We also supplemented our work with informed analytical review and substantive tests.

We have also assessed the procedures for identifying, vetting and working with partners and the level of monitoring and support given to partners.

No issues were noted in the course of our work.

3. Other areas of audit focus and disclosure

We have also noted the following matters from our initial discussions and from our work in previous years as not having significant or specific audit risk but being potentially relevant to the financial statements.

1. Income from the 9th General Assembly

We understand that \$763k has been received in relation to the 9th General Assembly which was held in Hyderabad during 2012. This income was from various sources including delegates, activities and sponsorship. IAPB's partner in India has provided assistance with bookkeeping. \$412k of this income is recorded within IAPB Trading Limited and the remainder is recorded within the books of the charity. We understand that amounts recorded in the subsidiary's accounts relate to commercial sponsorship and are considered as non-primary purpose trading and therefore taxable in the hands of the charity.

We have tested a sample of income covering sponsorship, delegates and exhibitor fees. We have also made sure that income is recorded within the correct entity. We have also confirmed with management the processes in place to ensure that income recorded is complete and that local taxation rules have been complied with. No issues were noted in the course of our work.

2. Payroll

Payroll represents a significant item of expenditure for IAPB – totalling \$1.9m in the prior year.

We tested a sample of employees, contractors and consultants to supporting contracts, tested deductions and ensured that trends in payroll numbers appeared reasonable and that the totals agree with the ledger.

No issues were noted in the course of our work.

3. Overseas operations

IAPB usually operates in conjunction with overseas partners; however we understand that a Florida Office was registered in 2011 in order to employ local staff. Another office in South Africa has been registered in 2012.

Local expenditure is paid with a credit card, and on a monthly basis a report and scanned receipts are provided to the Head Office. Larger items of expenditure are paid on presentation of an invoice and budget holder sign off. Overseas spend is reconciled by the finance team in London on a monthly basis. The co-ordination of overseas work in an INGO can require much focus by finance teams and head office management.

As part of our audit procedures we reviewed the procedures in place by which the organisation ensures compliance with HMRC's guidance on overseas expenditure. We have prepared a series of 15 questions on the area of HMRC's guidance on overseas expenditure, and management have provided us with a detailed paper in this area. No issues were noted during our work.

In the course of our work, we selected for testing a sample of transactions incurred overseas. No issues were noted within our testing.

We have also considered the procedures used by IAPB to ensure compliance with local laws and regulations (including local tax laws). In most cases, staff working locally with IAPB are secondees from partner organisations and therefore the partner organisations are responsible for ensuring staff compliance with employment taxes and employment law.

The only branch of IAPB that employs staff directly is the Latin America office, based in Florida. In order to assist management with assessing legal compliance in this area, we provided management with a legality questionnaire. This was completed by the Financial Controller with input from the Florida office. No issues were found during the course of audit.

4. Funds

IAPB operates a number of different funds representing various restrictions. IAPB must ensure that all movements on funds are correctly identified and accounted for. This requires careful consideration of the terms of an appeal, fundraising ask or the wishes of a donor.

In the course of our work, we checked whether the analysis of the movement in the net assets has been correctly allocated across the funds and whether the various resulting balances represent the restrictions or designations that should still be in force. Our testing in this area proved satisfactory with no issues arising.

5. Accounting estimates and accounting policies

We have considered the use of accounting estimates in the course of our work. No issues have been noted in respect of accounting estimates.

6. Journal entries

The processing of journal entries and other adjustments may involve both manual and automated procedures and controls. The manipulation of journal entries can be used to mask fraud.

We have considered the control over journal entries with regard to fraud and / or error. We have documented and checked how journal entries are initiated, authorised and passed.

In the course of our work, we tested a sample of journal entries. Our testing highlighted one point with regard to numbering of journal entries which we have discussed further in appendix 1.

7. Trading subsidiary

In addition to the charity and its overseas offices, IAPB has a subsidiary company, IAPB Trading Limited. This was formed in order to accept sponsorship in connection with the IAPB 9th General Assembly held in Hyderabad in 2012. \$440k of income has been recorded in the trading company in the period ended 2012. As discussed at planning, the turnover of the subsidiary falls considerably below the audit threshold of £6.5m. On this basis, the Directors of IAPB Trading Limited elected not to require a statutory audit and testing was undertaken on IAPB Trading in accordance with group materiality. Our testing on income and expenditure did not identify any issues.

8. Cost allocation

In addition to cost allocation within the charity itself there is also the issue of cost allocation to subsidiary and non-primary purpose trading activities to consider. HM Revenue & Customs (HMRC) is increasingly focusing on the issue of costs and has gone into much detail about cost allocation from a tax perspective. In addition the Charity SORP also lays down rules for the allocation of costs within a charity and with subsidiaries.

As part of our work in 2012 on the trading subsidiary, we ensured that the basis of cost application was appropriate and that the allocations were in line with SORP recommendations.

9. Cost reallocations

In addition to the restatement for Orbis income and expenditure, IAPB have also decided to look at the allocation of costs in the 2011 comparative figures in the financial statements this year. Two further reallocations have been made, one in relation to the Vision 2020 workshops for \$288k which has been moved from Programmes to Promotion of information and knowledge and the other to split out the 9th General Assembly costs (\$16k). We have agreed with management that the disclosures of these costs are appropriate.

4. Fraud and error

In our audit planning report, we explained that the responsibility for safeguarding the assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the trustees of IAPB.

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, 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.

As part of our audit procedures we made enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory accounts 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 accounts 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 accounts as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

We have reviewed and discussed the accounting and internal controls systems management has put in place to address these risks and to prevent and detect error. However, we emphasise that the trustees, Audit Committee and management should ensure that these matters are considered and reviewed on a regular basis.

We have included the following statements 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 and implementation of internal control to prevent and detect fraud and errors.
- ▶ 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 2012 financial statements, or the period since the 2012 year end.

We emphasise that this section is provided to explain our approach to fraud and error, but the responsibility to make and consider your own assessment rests with yourselves.

Management override of controls

In addition to the procedures above, we are required to design and perform audit procedures to respond to the risk of management's override of controls.

No instances of management override have come to our attention as a result of this work. However, we continue to recommend that, as journals can be processed without review, that checks on these should be conducted on a regular basis.

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

Frauds of diversion

This is where income or other assets due to IAPB 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.

Frauds of extraction

This is where funds or assets in possession of IAPB 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.

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. We understand that major spend decisions are not taken by one person and therefore this risk is reduced.

5 Draft representation letter

Crowe Clark Whitehill LLP
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10 Salisbury Square
London
EC4Y 8EH

Dear Sirs

We provide this letter in connection with your audit of the financial statements of International Agency for the Prevention of Blindness for the year ended 31 December 2012 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 charity as at 31 December 2012 and of the results of its operations for the year then ended in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

We confirm that the following representations are made 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.

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with UK GAAP.

We acknowledge as trustees our responsibility for making accurate representations to you and for the financial statements of the charity.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and errors.

We confirm that we have received confirmation from each director who was a director at the time of the approval of the financial statements that:

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information and
- that so far as they are aware there is no relevant audit information of which you are unaware.

All accounting records and relevant information have been made available to you for the purpose of your audit.

All the transactions undertaken by the charity have been properly reflected and recorded in the accounting records or other information provided to you.

No claims in connection with litigation have been or are expected to be received.

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.

We confirm that we are not aware of any breaches of our charitable trusts and that we have advised you of the existence of all endowments and funds maintained by us.

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 confirm that we have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.

We 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.

We are not aware of any allegations by employees, former employees, analysts, regulators or others of fraud, or suspected fraud, affecting the charity's financial statements.

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the charity conducts its business.

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.

We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with Financial Reporting Standard 8 and with the recommendations of the Statement of Recommended Practice, 'Accounting and Reporting by Charities (revised 2005)'.

In respect of accounting estimates and judgements, we confirm our belief that the significant assumptions used are reasonable.

We confirm that, having considered our expectations and intentions for the next twelve months and the availability of working capital, the charity is 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 the charity's ability to continue as a going concern.

We have no plans or intentions that might materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

The trustees are satisfied that the procedures in place are sufficient and that they have not received any information about the application of IAPB's funds or internal control issues that may impact on IAPB's funding that needs to be brought to our attention.

Yours faithfully,

.....

Trustee

Signed on behalf of the [board]




On[date]

Appendix 1 - Systems and controls issues

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 IAPB 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 the Committee with a clearer picture of the significance of issues raised, we have graded the issues raised by significance before any corrective actions are taken: We have also included as an appendix a brief update on the matters we raised last year.

High		These findings are significant and require urgent action.
Medium		These findings are of a less urgent nature, but still require reasonably prompt action.
Low		These findings merit attention within an agreed timescale.

Audit finding and recommendation	Priority	Management response
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Audit finding and recommendation	Priority	Management response
<p>3.1 Journals</p> <p>We noted during our review of journals that two journals had been given the same journal number. This is due to a system weakness whereby journals can only be automatically numbered in the system for one currency (\$). Any journals raised are included on a manual spread sheet which has led to journals being raised with the same number in the past. We appreciate that this is a software problem and will need to be discussed with the software provider.</p>		<p>Management will discuss the on-going issue of automated numbering for multi-currency journals with the software provider. In the rare instance when duplication occurs the journal number will be amended by adding a letter to the end of the journal number. Please note that although there was a duplication of number during the testing, both copies of the journals were immediately available.</p>
<p>3.2 Anti-Bribery Policy</p> <p>In the course of our work, we noted that the charity doesn't have an anti-bribery policy, policies on the acceptance of hospitality or the acceptance of donations in place. We understand that this is currently work in progress and will be reviewed by the Audit Committee in April 2013.</p>		<p>This will be discussed at the Audit Committee.</p>

Appendix 2 - Matters from last year

We have set out below the 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 2012 financial statements.

Recommendation fully implemented or no longer relevant	
Recommendation partially implemented	
No progress on recommendation	

Observations in 2011		Update 2012
<p>Formalised agreements</p> <p>Last year there was one issue with respect to funds received from an individual for \$50k for which no formal agreement existed. Despite this, we understand that clear deliverables have been agreed as part of the conditions of receipt.</p>		<p>We confirm that the agreement is now in place. We have obtained and reviewed the agreement signed May 2012.</p> <p>However we noted during our testing that there was no signed formal agreement in place with Sightsavers. We reviewed correspondence in relation to the grant and do not perceive this to be a cause for concern, however we would recommend that signed grant agreements are in place for all grants.</p>
<p>Written policies and procedures</p> <p>In the course of our work last year, we noted that there are a number of written policies and procedures which did not appear to be in place. Specifically, we noted that:</p> <ul style="list-style-type: none"> ▪ There is no formally documented fraud response plan; ▪ Whilst a whistleblowing policy is in place, this has not as yet been extended to the regions; and ▪ There are a number of finance processes not formally documented including supply of goods/services, invoicing and debt collection. <p>We also noted that there was no formally documented fraud register.</p>		<p>We have discussed this with management who explained that with respect to fraud response plan and fraud register, the templates have been created which will go to the Audit Committee meeting in April 2013 for review. We have obtained and reviewed the templates as part of our audit.</p> <p>We understand that the Whistleblowing policy for regions is currently work in progress and will also be discussed at the Audit Committee meeting.</p> <p>Finally with respect to finance process formal documentation, the Financial Controller explained that there are interim procedures in place at present. We recommend that these are considered again and formally prepared for use by other offices.</p>

Observations in 2011	Update 2012
<p>Segregation of duties</p> <p>We noted in the previous year that due to the small size of the finance team, there is limited segregation of duties in place. For example, the Financial Controller prepares the bank reconciliations but there is no independent review of those reconciliations. Similarly, we note that the Financial Controller is involved in both the preparation and review of journals.</p>	<p>We noted that an additional finance post was recruited during the year and that since September the project accountant has been preparing the bank reconciliations with the financial controller reviewing them.</p> <p>We understand that improvements have been made with regards to journals creation and review this year due to the expansion of the finance team. We understand that the programme accountant prepares the majority of the journals and although these are not specifically reviewed they are considered by the Financial Controller during the preparation of the management accounts.</p>
<p>SIB- reporting of income</p> <p>We discussed last year with management the process whereby income raised locally for the Seeing is Believing projects is reported to Standard Chartered in the UK. We understand that the timeliness of this can vary depending on the local office, and that where the funds cannot be remitted back to the UK the amounts raised are not formally reported to.</p> <p>In some cases, these amounts are not known, either because:</p> <ul style="list-style-type: none"> ▪ The details have not been provided to Standard Chartered in the UK; or ▪ The funds have been raised for broader charitable purposes and local management at Standard Chartered are yet to determine their application. 	<p>This issue is under the control of Standard Chartered Bank and the risk to IAPB is small as the total funding from the Bank is guaranteed. The appointment of Nnamdi Nwosuagwu resulted in improvements in the system.</p> <p>It was noted that local countries are encouraged to transfer the funds into SIB SCB accounts by the year end so the Bank can identify SIB income. Balances that have been transferred post year end were correctly recognised as accrued income.</p> <p>We have tested both cash and accrued income and confirm no issues were found.</p>

Observations in 2011		Update 2012
<p>Expenses self-declaration</p> <p>In the prior year management completed the Charity Commission Internal Financial Controls Checklist CC8. In reviewing their responses, we noted that IAPB's expense claim form does not include a self-declaration for employees to state that their claim is accurate and incurred for business</p>		<p>A self-declaration is now included on the expense claim. We confirm that we have reviewed the staff expense claim and evidenced the self-declaration on it.</p>
<p>Changes to supplier standing data</p> <p>We noted during last year that changes to the supplier standing data are inputted by a member of the finance team. We understand that supplier details are reviewed as part of the payment process and that changes to supplier details are only made on receipt of an instruction on supplier headed paper.</p> <p>We have been made aware of frauds surrounding the area of changes to supplier bank details and recommend that requests from suppliers to change bank details are always followed up with a telephone call in order to confirm it is a genuine request originating from the supplier.</p>		<p>We have discussed this with management and understand that the member of staff dealing with supplier data changes has been made aware of the need to double check any supplier changes. No issues were identified during our testing.</p>
<p>Password changes</p> <p>In the course of our IT questionnaire review last year, it was noted that whilst most users have complex passwords they are not forced to change their passwords on a regular basis. Therefore, if a password is compromised this could lead to an on-going breach in security.</p> <p>We recommend that for key applications users are forced to change their passwords periodically. This helps to ensure that if a password is compromised the time period the exposure exists for will be limited.</p>		<p>Management have completed the IT questionnaire again this year and we understand that staff accessing the server are now forced to change their passwords every 3 months.</p>
<p>Gifts in kind- secondments</p> <p>We understood that, on some occasions, a secondment will be agreed for one project phase and subsequently extended. In some instances, the extension will not always be formally documented.</p>		<p>For the particular employee where the issue existed last year we ensured that the contract has been updated. We have not noted any other issues during the course of audit.</p>

Observations in 2011		Update 2012
<p>Related parties</p> <p>Related party relationships are not limited only to trustees. In order to ascertain the existence of related party relationships with senior management, many charities also ask their senior management to complete related party declaration forms.</p> <p>We recommend that in future periods, confirmation of any related parties or conflicts of interest are sought and obtained from senior management. As well as ensuring that the necessary information is available to make complete disclosures within the financial statements, this is also a method by which conflicts of interest can be identified.</p>		<p>Declarations from SMT were obtained this year with no issues noted.</p>
<p>Depreciation</p> <p>It was noted last year that the life of some of the assets has been extended to 3 years.</p> <p>Assets are normally replaced every 2 years and as such are depreciated on a 50% straight line basis as disclosed in the accounts. However, we understand that the decision has been made to use computer equipment over three years. The depreciation charged has been calculated correctly; however the change in policy has not been disclosed with the accounts.</p> <p>We recommend that the change in accounting estimate is disclosed in the 2011 accounts. As part of this disclosure, the impact of the change should be disclosed.</p>		<p>The accounting policy was updated in 2011 accounts. During our work on fixed assets in 2012, we ensured that the assets are now depreciated over 3 years.</p>
<p>African region cash balances</p> <p>It was noted that IAPB did not use the year end exchange rate to translate the Africa region cash balance. As a result of fluctuating rates there is a significant percentage difference (in excess of 50%) between the balance included with in the accounts and the balance converted at the year-end rate.</p>		<p>It is IAPB's normal policy to recalculate all balance sheet balances at year end rate.</p> <p>We understand that the error in the Africa region balance was an oversight, caused by the late return of financial information from the region. Following our testing on balance sheet, no issues were identified with regards to translation of year end balances.</p>

Observations in 2011		Update 2012
<p>Receipts of partner payments</p> <p>We noted that a control is in place whereby recipients of Seeing is Believing funds provide a receipt for the funds based on a template. We understand that prior to September 2011, this was not always chased if not received and reliance was placed on partner reporting to confirm funds were received. This increases the risk that funds diverted away from IAPB may not be identified on a timely basis.</p>		<p>Since the appointment of Nnamdi Nwosuagwu as Seeing is Believing Finance Manager, receipts have been followed up and received. We can confirm through our review of the system that the process has been put in place.</p>

Appendix 3 - External developments

We have summarised below the changes in the charity sector over the recent period and other developments 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 issue a regular technical briefing for charities by email. If you would like to receive this please email your details to nonprofits@crowecw.co.uk. Alternatively, these briefings are available on [our website](#).

Publication of Lord Hodgson's statutory review of the Charities Act 2006

In July 2012, Lord Hodgson published the findings from his review of the Charities Act 2006. The review had been commissioned in line with the government's commitment to ensuring the Act was reviewed within 5 years of being enacted and as specifically required by section 73 of the Act.

Lord Hodgson's report, "*Trusted and Independent: Giving charity back to charities*" has generally been well received within the sector. The next stage is a review by Parliament and the civil society minister has written to sector leaders seeking views on which of the 113 recommendations in the report should be prioritised.

Given that nearly 30 of the recommendations require primary legislation in order to become law, it is unlikely that a new Bill would be passed before 2015.

In reviewing the Act and making recommendations, Lord Hodgson was guided by seven basic principles, which included:

- ▶ the regulatory framework should allow trustees to use their own judgement, whilst reducing unnecessary bureaucracy and red tape
- ▶ charitable status should be regarded as a privilege and not a right
- ▶ both the sector and the regulator should remain independent of government influence

- ▶ there should be greater clarity in legislation and regulatory requirements to encourage compliance
- ▶ the voluntary principle should remain at the heart of the charity sector.

A number of the recommendations have provoked debate in the sector. Further details can be found in our July / August Charities Alert, available on our website. Lord Hodgson's report can be found at:

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Review-of-the-Charities-Act-2006.pdf>.

The Public Administration Select Committee's is also conducting an enquiry into the impact and implementation of the Charities Act 2006 in the autumn. This review will include considering the recommendations put forward by Lord Hodgson's statutory review, but has two stated aims:

- ▶ to report on the operation and effectiveness of the provisions of the 2006 Act, and
- ▶ to consider whether further changes could be made to improve the legal and regulatory framework for charities

The Committee has put out a Questions Paper with 10 questions on regulating charities with any responses being required before 14 September 2012. The Issues and Questions Paper can be found on the parliament website:

<http://www.parliament.uk/documents/commons-committees/public-administration/Charities%20IQ3.pdf>.

The future of financial reporting

The ASB previously issued three Financial Reporting Exposure Drafts, “FRED”s 43 to 45, in October 2010 and March 2011 which set out proposals for a fundamental overhaul of UK and Republic of Ireland financial reporting standards.

Following the feedback received on these proposals, the ASB, in January 2012, issued FREDs 46 to 48 which replace the previous FREDs and introduce a number of revised proposals. One of the key changes is the elimination of the concept of “public accountability” and the related proposed three tier reporting structure.

The revised proposals recommend:

- ▶ replacing all extant FRSs, Statements of Standard Accounting Practice and Urgent Issues Task Force Abstracts (current FRSs) in the UK and Republic of Ireland with a single FRS, the draft of which is set out as FRED 48 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’;
- ▶ introducing a reduced disclosure framework for the financial reporting of certain qualifying entities; and
- ▶ retaining the ‘Financial Reporting Standard for Smaller Entities’ (FRSSE) and updating it following planned changes at EU level to financial reporting requirements for small companies.

Requirements specific to public benefit entities have been incorporated into FRED 48 (identified by the prefix “PBE”) rather than the previous proposal of a separate Standard for Public Benefit Entities (the FRSPBE).

At the same time, certain specific changes relating to Public Benefit Entities have also been made. Clarification is provided on the recognition of income from donations of goods or services (incoming resources for non-exchange transactions) - recognition should include consideration of whether the resources can be reliably measured and whether the benefit of recognition outweighs the costs. Also, the proposals relating to property held for the provision of social benefits, the impairment of assets held for service potential (to be measured using a value in use based on the present value of future service potential) and to funding commitments have been extended to all entities.

The ASB is proposing that most SORPs, including the SORP “Accounting and Reporting by Charities” should be updated to bring them in line with the proposals in FRED 48.

For small charities, the ASB is proposing to retain the Financial Reporting Standard for Smaller Entities (“FRSSE”) and to consult again on how to update it following the European Commission’s planned changes to the accounting requirements for smaller entities.

The effective date for the implementation of the new reporting requirements has been changed and implementation is now proposed for accounting periods starting on or after 1 January 2015. Early implementation will be permitted although for charities implementation will be subject to the additional requirement that they must also apply a public benefit entity SORP which will be developed in accordance with the draft Financial Reporting Standard.

The ASB requested comments on any aspect of the proposals and we have already noted that we believe that there are some serious flaws in the FRED in relation to income and expenditure recognition.

We have produced a detailed briefing note on these and other issues that is available on our website:

[http://www.crowehorwath.net/uk/uploadedFiles/UK/industries/Not_for_Profits/Charities/Proposed%20FRS%20key%20issues%20for%20PBEs%20\(final%20as%20printed\).pdf](http://www.crowehorwath.net/uk/uploadedFiles/UK/industries/Not_for_Profits/Charities/Proposed%20FRS%20key%20issues%20for%20PBEs%20(final%20as%20printed).pdf)

Further information and copies of the FREDs can be obtained from the FRC website:

[http://www.frc.org.uk/Our-Work/Publications/ASB/Revised-FRED-The-Future-of-Financial-Reporting-\(1\)/Revised-FRED-46,-47-48-The-Future-of-Financial-Rep.aspx](http://www.frc.org.uk/Our-Work/Publications/ASB/Revised-FRED-The-Future-of-Financial-Reporting-(1)/Revised-FRED-46,-47-48-The-Future-of-Financial-Rep.aspx) .

Public Benefit guidance update

The Charity Commission has released its revised guidance on public benefit. The guidance is open to a consultation period of three months to allow trustees to provide feedback which will help shape future guidance from the Commission. Delivered in an online format, it provides a well referenced document allowing easy access to specific points of interest and includes a blog for the feedback to be provided.

The guidance now states that it is only necessary for an entity to have charitable purposes to be regarded as a charity rather than to be judged on the activities it undertakes as stated by the previous guidance. A charitable purpose is a purpose that falls within the descriptions of purposes in the Charities Act and more importantly, is for the public benefit. These changes have arisen due to the findings of the Upper Tribunal which judged that the previous published guidance by the Charity Commission on fee-charging charities was wrong.

Within the revised public benefit guidance there is a specific section directed to those charities charging services and the restrictions on excluding the poor. The guidance re-enforces that a charity's purposes cannot be to exclude the poor. It defines the poor not necessarily as those as the poorest in society but those who are on modest means which can only afford 'low' fees. Low fees are being defined as small membership charges, small entry fees, library tickets etc. By definition, high fees are fees that are beyond the reach of those on modest means.

Whether a charity is being run in a way that excludes the poor can only be judged over a period of time. The poor need to be able to benefit in more than a purely tokenistic way. Provision also needs to be made for those who are not poor but who cannot afford the full fees. Regardless of the category which the beneficiary falls into, what is clear is that the level of provision given by the charity to the beneficiary group remains the decision of the trustees. There are no prescribed financial limits to be followed which will result in any test being passed or failed.

Further details of the guidance can be found on the Charity Commissions Blog site:

<http://publicbenefitconsultation.blogspot.co.uk/p/home.html>

Real Time Information (RTI)

In April 2013 HM Revenue & Customs (HMRC) is introducing a new way of reporting PAYE: Real Time Information, or RTI.

RTI means that employers and pension providers will tell HMRC about PAYE payments at the time they are made as part of their payroll process - payroll software should collect the necessary information and send it to HMRC online.

All employers will be legally required to be ready to start submissions under RTI from April 2013 although HMRC will ask you to join between April and October 2013.

Clearly this is a fairly significant change and HMRC have issued some extensive guidance on operating PAYE in real time which is available on their website:

<http://www.hmrc.gov.uk/payerti/index.htm> .

Our Employment Advisory Group has already been working with a number of our clients on the necessary changes. If you would like any assistance with implementing the necessary changes and reporting, please let us know. Further details on RTI and how we may help can be found in our recent briefing document available on our website:

http://www.crowehorwath.net/uk/uploadedFiles/UK/services/tax/Employment_tax/0175_RTIBriefing%20-%20EAG.pdf

Charities Act 2011

The Charities Act 2011 received Royal Assent on 14 December 2011 and came into force on 14 March 2012. The new Act repeals and replaces the Recreational Charities Act 1958, the Charities Act 1993 and many of the provisions of the Charities Act 2006, all since amended by other legislation.

The Act updates the text and simplifies the structure of the existing legislation, but it does not change the existing law or introduce new policy.

Investment guidance for Charities

The Charity Commission updated CC14 'Charities and Investment Matters: A Guide for Trustees' at the end of 2011.

The revised guidance is a clear example of the Commission's new strategic approach of encouraging self-reliance and accountability. It also recognises the Commission's new regulatory approach and wider changes in policy and practice within the charity sector.

The guidance aims to provide a clear framework confirming that trustees can invest ethically, sustainably, for a financial return or to achieve charitable aims or for a mix of all or any of the above, but any final decisions are for the trustees to take. The guidance emphasises that trustees must be clear about their motive for making a particular investment and must be able to demonstrate that they are using their charity's resources in its best interests.

The guidance can be downloaded from the Charity Commission website:

<http://www.charitycommission.gov.uk/publications/cc14.aspx>

Charity Commission's new Risk Framework

The Charity Commission published its new Risk Framework in January 2012 together with information on how the framework will be applied.

The Framework explains to trustees, charity advisors and the wider public the Commission's approach to regulation and how it assesses risks affecting charities, the wider charity sector and public confidence.

The Commission will use the Framework to support its aims, which are to assure the public that charity money is used in line with charity law, that charities are legitimate and run in line with their charitable purposes, as well as ensuring trustees carry out their duties and responsibilities and that there are high standards of accountability and governance in charities.

Details of the Risk Framework can be seen on the Charity Commission website:

http://www.charitycommission.gov.uk/Our_regulatory_activity/Our_approach/Risk_framework.aspx



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