

IAPB

Year ended 31 December 2013
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

17 March 2014

Dear Trustees

Audit for the year ended 31 December 2013

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 2013 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audits 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 IAPB management during our audit of the financial statements and at our closing meeting on 6 March 2014. Peter Ackland and Blandine Labry 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 Sections 2 and 3 of this report comments on the matters arising from our audit work which we wish to bring to your attention. These comments highlight specific judgements / estimates that have been made in the preparation of the draft statutory financial statements as well as certain other important matters arising from the audit process.

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 audits. 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 in Appendix 1 of 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

Contents	Page
1. Introduction and audit approach	1
2. Key areas of audit focus	3
3. Other areas of audit focus	5
4. Fraud and error	8
5. Managing third party relationship risks	10
Appendix 1 - Systems and controls issues	12
Appendix 2 - Matters from last year	14
Appendix 3 - Draft representation letter	17
Appendix 4 - External developments	19

1. Introduction and audit approach

Introduction

We have pleasure in setting out in this document our report to the trustees of IAPB for the year ended 31 December 2013.

We have substantially completed the audit in accordance with our Audit Planning Report which was sent to you and the senior management team on 8 November 2013, subject to the matters set out below.

- ▶ Budgets and cash flows for 2015
- ▶ Receipt of bank letters from Standard Chartered and HSBC
- ▶ Completion of the post-Balance Sheet events review.
- ▶ Review of the final financial statements
- ▶ Receipt of the signed letter of representation.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of the outstanding matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

The final three items we have identified as outstanding are with regard to work we usually carry out just prior to us signing our audit report.

Audit approach

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). Our work combines 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.

No restrictions were placed on our audit, and we have been able to undertake our work as set out in our planning report.

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 systems and 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.

Key audit matters

In Section 2 we have discussed in detail the findings from our work in relation to the following matters.

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

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 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 takes 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 2013 and are satisfied that it continues to be appropriate with 1% of incoming resources being \$90,000.

Where we note misstatements, we consider these in qualitative and quantitative terms; we report to you any unadjusted errors above \$2,000. There are no unadjusted items identified from our audit in excess of the above trivial limit.

Other matters to be brought to your attention

We have brought to your attention various other matters in the other sections and appendices in this report, including the Trustees' responsibilities in relation to Fraud and Error in Section 4.

We have also provided an update on emerging and recent issues within the Not for Profit sector in Appendix 4.

Ethical Standards

In our professional judgement we are independent within the meaning of APB Ethical Standards and the objectivity of the audit engagement partner and audit staff is not impaired.

We are not aware of any inconsistencies between APB Ethical Standards and the company's policy for the supply of non-audit services or of any apparent breach of that policy.

We consider that there are no developments in relation to these standards which should be brought to your attention other than those raised elsewhere in this report or our audit plan.

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

Directors' 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.

This report has been prepared for the private use of the Trustees of IAPB and its contents should not be disclosed to third parties without our prior written consent. We assume no responsibility to any other person who has access to this report.

2. Key areas of audit focus

Our work has been carried out in accordance with the audit plan presented to you and has taken account of our assessment of the risks of misstatement of transactions and balances in the financial statements.

We initially identified from our understanding of IAPB a range of risks and planned our audit work so as to reduce the risk of material misstatement to an acceptable level. We also identified which of those risks required special audit attention (“significant risks” or “specific risks”).

We have summarised below the results of our audit work on the areas of significant risk set out in our planning report as well as on any key additional risks, judgements or other matters in relation to the financial statements of IAPB identified during our audit.

2.1 Seeing is Believing

The bulk of IAPB’s expenditure relates to the ‘Seeing is Believing’ programme, a partnership with Standard Chartered bank. In 2013, \$9.7m of income has been recognised by IAPB in respect of this programme. Standard Chartered raises money through staff fundraising efforts which is then matched by the bank. These funds are predominantly received in order that IAPB can make grants to a range of programmes undertaken by IAPB member organisations.

Where large amounts of voluntary income are received, such as in the case of the Seeing is Believing Programme, the completeness of income is an important issue and in preparing the financial statements and considering the control environment the question “How do we know it is all there?” needs to be carefully considered. Our main area of focus in this area has been on the capture and processing (including any restrictions or designations) of voluntary income.

As part of our work over the Seeing is Believing programme we have:

- ▶ Updated our understanding of the processes by which Seeing is Believing income is controlled and recorded within the accounting records at Standard Chartered and IAPB. This included a visit to Standard Chartered bank during our interim audit;
- ▶ Selected a sample of voluntary income from the Standard Chartered accounting records. We agreed this income to supporting documentation and confirmed it had been accurately recorded within IAPB’s financial statements;

- ▶ Selected a sample of grant expenditure and agreed these to supporting documentation, including evidence of authorisation. We also updated our understanding of the processes through which grants payments are controlled;
- ▶ Reviewed the year end cut-off of income and expenditure. In particular we ensured that grants committed had been correctly included or excluded from the 2013 expenditure. We noted during our testing that one grant payment had been expensed incorrectly. This has been corrected and further detail included in Appendix 1;
- ▶ Tested a sample of income and expenditure accrued and ensured it had been correctly calculated and that it was complete;
- ▶ Performed analytical procedures over Seeing is Believing income and expenditure; and
- ▶ Carried out our assessment of fraud and error for discussion with management and the Audit Committee members (refer to section 4 of this document).

Treatment of funds which cannot be remitted to the UK

As part of our work, we also considered the completeness of income recognised in the accounts for countries where funds cannot be remitted to the UK. As in the past, in order to facilitate this, we requested from Standard Chartered a global bank letter which incorporates all Seeing is Believing accounts worldwide. No issues were identified following the receipt of the global bank letter.

In addition, there are three countries this year, Taiwan, Hong Kong and Pakistan, where IAPB cannot recognise locally raised income as there are

restrictions prohibiting IAPB from fundraising and therefore the campaigns are run in the name of other partner organisations such as Orbis in Hong Kong. We have reconfirmed our understanding this year and agree that the income for these countries have been correctly excluded.

Locally developed projects

Locally developed project costs are also included in SIB grant expenditure and have increased from last year. These are grants which are decided and monitored within country and paid using country SIB funds. Grant commitments of \$202k (\$153k) have been agreed during the year. As part of our testing on grant expenditure and grant commitments we selected a sample of locally developed projects and ensured that these were appropriately included within the accounts.

We noted during our testing and from a discussions with management that in four instances payments had been made to projects prior to formal approval. In one case we identified during our testing, payment was made in December 2013, but approval of the project was only agreed in January 2014. In two other cases management have noted that there does not appear to be any formal approval at all, and the final case, it is unclear if the payment has been approved or not. Although the balance of payments for the 4 identified cases are low value, as this is an area of growth each year, it is important that the appropriate processes are followed and approval of projects is completed prior to actual payment being made.

2.2 Grant income (other than Seeing is Believing)

In addition to Seeing is Believing IAPB receive grants from other sources amounting to \$1.9m in 2013. 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.

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 have:

- ▶ Updated and documented our understanding of the controls in place over grant income;
- ▶ 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;
- ▶ Scrutinised funding agreements so as to understand income recognition, terms, reporting requirements, and claw back risk; and
- ▶ Asked management to complete the Charity Commission CC8 checklist on internal financial controls.

No issues were identified during our testing in this area.

2.3 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 outside of this programme. In 2013, this amounted to expenditure of \$651k. As part of our work, we have:

- ▶ Updated our understanding of the design and implementation of key controls to manage and report on grants. We have supplemented our work with informed analytical review and substantive tests;
- ▶ Assessed the procedures for identifying, vetting and working with partners and the level of monitoring and support given to partners; and
- ▶ Gained an understanding of the commitments, purchases, creditors and payments cycle.

No issues were identified during the course of our work.

3. Other areas of audit focus

In addition to matters relating to the key areas of accounting and audit focus as reported in Section 2, we have also noted the following matters from our audit work as not having significant or specific audit risk but which we should bring to your attention.

3.1 Payroll

Payroll represents a significant item of expenditure for IAPB – totalling \$1.9m in 2013.

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.

3.2 Overseas Operations

IAPB operate in a number of locations overseas. In the majority of regions, items of expenditure are paid by head office on presentation of an invoice and budget holder sign off. Smaller items of expenditure are paid locally by credit cards and on a monthly basis a report and scanned receipts are provided to Head Office. Overseas spend is reconciled by the finance team in London on a monthly basis. Where funds are held locally and the region is supported by a local partner, the local partner's policies and procedures are followed, for instance the Western Pacific Region is supported by Vision 2020 Australia. Vision 2020 Australia provides transaction reports monthly and a quarterly financial reconciliation. Reports are reviewed by the regional coordinator and the finance team in London.

As part of our audit procedures in relation to overseas operations, we have:

- ▶ Updated and confirmed our understanding of the processes by which overseas expenditure is controlled, captured and reported within the organisation. Included within this work was a review of the processes used by the Head Office to verify the validity of the information provided by the overseas offices;
- ▶ Performed substantive audit procedures such as the testing of a sample of selected expenditure transactions;

- ▶ Reviewed the controls in place to manage and account for overseas cash and assets; and
- ▶ Reviewed the procedures used by IAPB to ensure compliance with local laws and regulations (including local tax laws) and the means by which non-compliance is reported, assessed for potential impact and monitored. 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. .

3.3 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. No issues were identified during our testing this year.

3.4 Cost allocations

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 audit of the trading subsidiary, we ensured that the basis of cost application was appropriate and that the allocations were in line with SORP recommendations.

3.5 Funds

IAPB operates a number of different funds subject to various restrictions and designations. It is important 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.

As part of our audit work this year, we have:

- ▶ Traced restricted donations and grants found in our income testing to the relevant fund account.
- ▶ Reviewed a sample of expenses allocated to restricted funds and ensured that the expenditure was spent in accordance with the objects of the fund.

Our testing in this area proved satisfactory with no issues arising.

3.6 Eastern Mediterranean Region (EMR)

We understand that the Eastern Mediterranean region operates more autonomously than the other regions included within IAPB. The regional chair of EMR is HRH Prince Abdulaziz Bin Ahmad Bin Abdulaziz Al Saud, who is also a Trustee of IAPB, and has always looked after the funding of the staff and work undertaken in the region rather than funds being sent from IAPB.

As IAPB considers that the operations within EMR are not under their control, it has been IAPB's policy not to consolidate the results of this region within its own accounts. All other regional operations are considered as part of the charity, and are therefore included within the IAPB accounts.

The key issue to consider is whether IAPB has the power to exercise dominant influence and could control operating and financial policies. These do not have to be the decisions taken by management on a day-to-day basis, but the strategic decisions - such as the focus of work.

We have discussed this with management and they have confirmed that the strategic decision making for EMR is within the remit of the Regional Chair of EMR. Furthermore the relationship between the IAPB and EMR has been one

of support and ensuring that they get best value from the work that they are doing rather than directing their operations or controlling their activities.

Based on the above, we concur with management's view that there is no control or dominant influence over EMR. However as this is based on management's judgement we will be taking a representation from the Board.

We are aware there is an overall review of governance structure of IAPB and consideration of issues such as size of the board and representation on the board. We are aware that there are some anomalies in the current reporting and accountability structures such as there being no direct reporting from the Chairs of the various regional boards to the Board of Trustees of IAPB. We would recommend that issues such as this and the autonomous nature of EMR are considered as part of the wider review.

3.7 VAT review

At present neither IAPB nor IAPB Trading Limited are registered for VAT. A member of our VAT team met with management during the audit to discuss the VAT position.

During the discussion it was noted that at present the charity and trading company incurs very little VAT so it would not benefit either entity to be registered for VAT. Taking into account the VAT registration limits for each entity, it was confirmed by management that the income of the 2 entities combined still remains below the VAT registration limit.

3.8 Trading Subsidiary

This year we undertook a separate audit for IAPB Trading Limited. This was due to the fact that although the turnover of the trading subsidiary was considerably below the audit threshold of £6.5m, the trading subsidiary was not eligible for audit exemption this year as the group results exceeded the thresholds to qualify as a small group. This was based on results from 2012 financial statements. No issues were identified during our testing.

3.9 Investments

At the end of the year, the total investable funds i.e. cash and short term deposits held were \$19.4m. As at the 31 December 2013 \$10m were placed on short term European Money Market deposits with Standard Chartered

Bank, with maturing dates spreading across 2014. It is also important to note that of the total investable amounts £17.9m is held in relation to the SIB and so is a 'restricted asset'.

We discussed with management whether any benchmarking is done as to the rates of return received by IAPB from SCB on the investment of these funds. Management have explained that in their view given the close relationship with SCB and SCB's commitment to raise \$100million of funds by 2020 as any

shortfall on returns received from SCB on the investment of the IAPB funds will be in the end met by SCB.

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 2013 financial statements, or the period since the 2013 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. Managing third party relationship risks

With increased regulatory scrutiny, continuing cost pressures and active stakeholders, charities today must have a clear understanding of the risks that are inherent in external business relationships. By recognising and proactively addressing these third-party issues, organisations can reduce exposure to risk and achieve stronger relationships with service providers, suppliers, and delivery partners.

Trends

Many organisations are thinking more broadly about the risks they face. Inevitably, there is growing realisation that many of the most significant risks are driven by relationships with other entities. These relationships include:

- ▶ Service providers – such as donation collection and processing, investment management, IT and computer services, payroll processing, pension services, construction services, property, advertising, leasing, utilities and legal services;
- ▶ Supply-side partners – such as shared service organisations, external fundraisers, grant makers, commercial participators, statutory agencies and other funders;
- ▶ Demand-side partners – such as governmental organisations, other statutory bodies, funders, beneficiaries and other charities; and
- ▶ Other relationships – such as members, donors, supporter groups, alliances, consortiums, joint ventures and employees.

Risks have always been inherent in third-party relationships, but some particularly dramatic examples of risk exposure have occurred in recent years. For example:

- ▶ Reliance on third parties. The March 2011 earthquake and tsunami in Japan demonstrated a significant vulnerability to sudden parts shortages and supply chain disruptions across a broad range of industries
- ▶ Protection of systems and data. High-profile data breaches have shown how even businesses with robust data security systems can be at risk due to weaknesses in the security of third-party organisations entrusted with sensitive information.
- ▶ Reputation linked to others' actions. Unexpected revelations about distant suppliers' labour and environmental practices, which often

catch retailers and distributors by surprise, demonstrate how quickly stakeholder confidence can be shaken, even in businesses with solid reputations for competence and integrity.

- ▶ Continuity of operations. Allegations of accounting fraud in one major outsourced provider of IT services ultimately had global repercussions, triggering the near collapse of the business.
- ▶ Financial dependency. Highly volatile commodity prices have led to rapidly changing cost structures for vendors in virtually all industries.

Third-party risks are increasingly important to charities, especially given the trends in outsourcing. For IAPB this is important in the management of its payroll, because of the reliance on 3rd party payroll provider. Clearly the most important relationship for IAPB to manage is that which it has with SCB, both in terms of the commitment made by the bank in the funding for the SIB campaign but also given that SCB are IAPB's main global banking provider and a part of the management of IAPB's funds are done by an employee of the Bank.

Board members, as part of their corporate governance responsibilities, should be asking management about third-party risks. The following suggested questions are a useful means of starting this process.

1. Do we have a full list of our relationships and agreements?
2. Have we assessed the risks to the IAPB of the relationships we have?
3. Who owns the assessment of these risks?
4. What are the key relationship risks and what are the processes we have in place to manage them?
5. How do we know that the third-parties with whom we have relationships are complying with the agreements we have in place?

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| 6. | What are our policies in relation to auditing agreements for compliance? | 10. | Do our standard agreements address the key risks? |
| 7. | How do we know that the third-parties with whom we have relationships are complying with laws and regulations? | 11. | How do we know the reports we receive from key third-parties are reliable? |
| 8. | Which of our key relationships and agreements have not been reviewed by legal counsel in the last three to five years? | 12. | Have we tested our business continuity plans with our key third-party relationships? |
| 9. | How do we re-assess the risks of a relationship prior to renewal? What types of risks do we consider at renewal? | 13. | How dependent are our third-parties on subcontractors? |
| | | 14. | What risks are associated with these organisations? |

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
1. Review of grant expenditure During our testing of Seeing is Believing grant expenditure we noted that one grant payment for \$340k relating to 2014 had been incorrectly expensed during the year rather than being included as a prepayment. An adjustment has been correctly made in the accounts this year. We have discussed this with management and understand that going forward a review of year-end grants will be undertaken as part of the audit process.	L	We will ensure that descriptions on the grant transactional report are thoroughly reviewed at year end.

Audit finding and recommendation	Priority	Management response
2. IT review findings As part of our audit, our specialist IT auditor carried out a high level review of the IT control environment at IAPB. This involved having discussions with the Financial Controller and other individuals involved in IT applications. One medium graded issue was identified during the review for management's attention. This has been summarised below:- Finance server security <i>Priority: Medium</i> The finance application is stored on a server outside of the IAPB head office network. Staff access it by logging on via a remote access method called RDP, using a server account. This method of access means that there is only one level of defence between financial data and a malicious attacker – a username and password. RDP has some security vulnerabilities and is a common target for hackers. Studies have shown that an average personal computer will experience 20-50 hacking attempts targeted at RDP every day. Additionally, the operating system of the server is outdated and more prone to security vulnerabilities, which are not patched regularly. This operating system will no longer get security updates after July 2015. Recommendation IAPB should consider changing the way they access the finance server. Alternatively, the following measures should be considered: ▶ Ensure the server is configured to listen to RDP requests on a non-default port. ▶ By default, RDP is available to administrators on the server, as well as those specifically granted RDP access. Ensure administrators are appropriate, default accounts (e.g. Administrator) are renamed and passwords are strong. ▶ Ensure the server is patched on a regular basis, especially when it comes to vulnerabilities relating to RDP. ▶ Upgrade the operating system to a more recent version.	M	Those findings were discussed with our IT support provider as soon as they have been raised by the IT auditor. In the short term, we will be looking at changing the non-default port, we will also be looking at limiting the IP to that of each individual finance staff, however we need to investigate further as this may restrict access when staff are travelling, usage of a proxy may need to be considered. In early 2015 we will also be looking at upgrading the operating system before its stops being supported in mid-2015. Previously the current accounting package was not compatible with 2012 operating system; this may now have been resolved. Trustees must be re-assured that in the event of the finance server being successfully hacked the data is backed up to a third party every evening, so the risk of loss of information is small. Furthermore no personal or confidential information is held in the finance database.

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 2013 financial statements.

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

Observations in 2012		Update 2013
1. Journals Last year 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 recorded in the system for one currency (\$). Therefore all journals raised in other currencies are included on a manual spread sheet. This 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.	F	We understand that there is still no software solution for sequential journal numbering across multi currencies. However no issues were identified during our testing this year.
2. Anti-Bribery Policy We noted in the course of our work last year, 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.	F	We understand that the Board approved the policy and the approach in March 2013 and that London staff were briefed in September during the staff away day. All employees were emailed copy of the policy and were asked to return a form stating that they had read and understood it. The policy was uploaded onto the staff intranet as well as the shared drive

Observations in 2012		Update 2013
3. Formalised agreements (2011) In 2011 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. Update in 2012 We confirm that the agreement is now in place. We have obtained and reviewed the agreement signed May 2012. 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.	F	We understand that as much as possible management seek to have formal grant agreements. However due to the nature of the relationship with partners/members, and in order to maintain the administrative burden in line with the risk of the transaction there are still some instance where no formal agreement have been in place. We did not however identify any missing agreements during our detailed testing.

Observations in 2012		Update 2013
4. Written Policies and Procedures (2011) In the course of our work in 2011, we noted that there are a number of written policies and procedures which did not appear to be in place. Specifically, we noted that: - 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. We also noted that there was no formally documented fraud register. Update in 2012 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. We understand that the Whistleblowing policy for regions is currently work in progress and will also be discussed at the Audit Committee meeting. 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.	F	We understand from discussion with management that the whistle blowing policy has been sent to all staff together with the fraud reporting policy. The Fraud register has been implemented and updated. In addition, formal process documentation for Africa has been put in place.

Appendix 3 - Draft representation letter

This letter must be typed on charity's letterhead, dated at the date of the approval of the financial statements and minuted

Crowe Clark Whitehill LLP
St. Bride's House
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 and IAPB Trading Limited for the year ended 31 December 2013 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 company and group as at 31 December 2013 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 enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that, to the best of our knowledge and belief, we can properly make each of the following representations to you.

1. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with UK GAAP.
2. We acknowledge as directors our responsibility for making accurate representations to you and for the financial statements of the company and group.
3. We acknowledge our responsibility for the design and implementation of internal controls to prevent and detect fraud and errors.
4. We confirm that in respect of each group company, we have received confirmation from every director, who was a director, at the time of the approval of the financial statements that:
 - (a) 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
 - (b) that so far as they are aware there is no relevant audit information of which you are unaware.
5. All accounting records and relevant information have been made available to you for the purpose of your audit.
6. All the transactions undertaken by the company and group have been properly reflected and recorded in the accounting records or other information provided to you.
7. No claims in connection with litigation have been or are expected to be received.
8. 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.
9. 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.

10. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
11. We are not aware of any fraud or suspected fraud affecting the company and group 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.
12. We are not aware of any allegations by employees, former employees, analysts, regulators or others of fraud, or suspected fraud, affecting the company and group's financial statements.
13. 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 company and group conducts its business.
14. 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.
15. We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with the requirements of Financial Reporting Standard 8.
16. In respect of accounting estimates and judgements, we confirm our belief that the significant assumptions used are reasonable.
17. 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.
18. We have no plans or intentions that might materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
19. 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.
20. We confirm that the Eastern Mediterranean Region is not under the control of IAPB and it is therefore correct not to combine or consolidate its results into the consolidated accounts for the IAPB.

Yours faithfully,

.....

Trustee

Signed on behalf of the Board of Trustees

On [date]

Appendix 4 - 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](#).

The future of financial reporting

With effect from 2015, entities that currently report under UK GAAP will be required to move to reporting under FRS 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland. FRS 102 was issued by the Financial Reporting Council (“FRC”) on 14 March 2013 and is applicable for all accounting periods commencing on or after 1 January 2015.

As part of this change the FRC also proposed that most SORPs, including the SORP “Accounting and Reporting by Charities”, should be updated to bring them in line with the new Financial Reporting Standard and an exposure draft of the proposed amended charity SORP was published in 2013. Comments on this draft were invited and the SORP committee is currently reviewing the comments received. The SORP will then be submitted to the FRC for their review and clearance before publication.

The SORP exposure draft follows a new modular format. It is hoped that this new style will make the recommendations easier for charities to navigate and identify the parts of the new SORP which are applicable to them.

The expansive draft includes a number of changes in accounting treatments and disclosures which may impact on areas such as income recognition, accounting for pensions in multi-employer defined benefit schemes and the valuation of donated goods and services. In particular, FRS102 sets the basis for the recognition of assets and liabilities and related income and expenditure to take account of the **probability** that future economic benefit associated with the item will flow to or from the entity. This may have implications for the accounting for any fundraising, legacy or similar income in charities as the current SORP requires **certainty** for recognition. It may also require charities to review the need to provide for outstanding holiday pay and other staff benefits at the year-end as this is an area specifically identified in the FRS.

There are also a number of proposed presentational changes. The SORP Committee are looking to encourage better use of the Annual Report as a document for explaining the activities, achievements and learning of the charity and greater prominence is therefore given to these areas. Any changes in this will also have to take account of the recent Companies Act change introducing a separate Strategic Report which charitable companies are currently having to implement.

The draft SORP also simplifies the presentation in the SoFA, with four incoming resource headings (donations, earned income split between income earned from charitable activities and other activities, and investment and other income) replacing the previous six headings. A similar simplification of expenditure headings is also proposed with three headings (fundraising costs, expenditure on charitable activities and other expenditure) replacing the seven headings of the current SoFA.

There will also no longer be a requirement to disclose governance costs on the face of the SoFA. The costs will instead be disclosed in the notes as a component of support costs.

Whilst the implementation date for the new reporting requirements - accounting periods starting on or after 1 January 2015 – is still in the future, consideration will need to be given to the restatement of the previous year's comparative figures which in turn may require the restatement of certain balances at 31 December 2013.

More details on the proposed Charity SORP can be seen on a separate Charity Commission SORP consultation website: <http://www.charitycorp.org/>.

Guidance for Trustees on how to manage conflicts of interest

The Charity Commission has recently carried out a consultation on a new draft guide for trustees about how to manage conflicts of interest. Whilst there

are no changes to the legal duties of trustees, the new draft guidance is designed to explain the principles and practical steps in a clearer way.

Conflicts of interest can arise in charities of all sizes and if not properly managed can create serious problems. The key principle is that trustees must make decisions that are focused only on the best interests of the charity. Trustees should also be able to show that they have approached any conflict of interest in the right way.

The draft guidance sets out practical steps to help trustees identify, manage and record conflicts of interest. The Commission is currently updating the draft from the feedback received and plans to issue the final guidance in April 2014.

The draft guidance and more information on this can be seen on the Charity Commission website <http://www.charitycommission.gov.uk/detailed-guidance/trustees-staff-and-volunteers/managing-conflicts-of-interest-a-guide-for-trustees/>.

Audio podcasts for charity trustees on internal financial controls and conflicts of interest.

The Charity Commission in February 2014 published two new audio podcasts designed to help charity trustees understand their duties under charity law. The two podcasts cover two key areas.

- ▶ Internal Financial Controls: What can your charity learn from this horror story?
- ▶ Conflicts of Interest: What can your charity learn from this case study?

The podcasts are aimed at helping trustees tackle challenges and prevent problems at their charities.

The podcasts are available on the Charity Commission website <http://www.charitycommission.gov.uk/about-the-commission/press-office/media-information-centre/podcasts/>.

Charity Commission decision making guidance for Trustees

The Charity Commission in July 2013 issued new guidance on decision making for charity trustees. The guidance, *It's Your Decision*, explains the key principles of decision making that the courts and the Commission expect

trustees to apply when they are making significant or strategic decisions about their charity.

The principles deal with the important things that trustees need to get right, such as ensuring they have the relevant powers to carry out their plans, managing conflicts of interest, and making informed decisions based only on relevant considerations.

Following these principles will help to protect trustees if something goes wrong. Some decisions don't work out as the trustees intended, but if the trustees can show that they have applied and followed the principles in making their decision, it's unlikely that the courts or the Commission will hold them personally responsible to the charity for what went wrong.

The guidance can be seen on the Commission's website <http://www.charitycommission.gov.uk/detailed-guidance/trustees-staff-and-volunteers/its-your-decision-charity-trustees-and-decision-making/>.

Revised Annual Return for charities

Following the consultation on proposed changes to the Annual Return, the Charity Commission published its findings in October 2013. The 10 proposals outlined in the consultation were supported by the majority of respondents and will be incorporated into the revised return. It is proposed that the annual return will include information on:

- ▶ whether the charity pays any of their trustees for their duties as a trustee;
- ▶ whether the charity has a written policy in six areas – risk management, investment, safeguarding vulnerable beneficiaries, conflicts of interest, volunteer management, and complaints handling;
- ▶ whether the charity is a member of the Fundraising Standards Board;
- ▶ whether the charity has a trading subsidiary; and
- ▶ what the charity has achieved during the year.

The Commission has also decided to discontinue the Summary Information Return from 2014 (in line with Lord Hodgson's recommendations).

In addition to the proposals in the consultation, as part of a tougher approach on accounts monitoring and compliance, the Charity Commission will also display on the charity's own register page whether:

- ▶ the accounts have been qualified,
- ▶ the charity is insolvent or in administration, and/or
- ▶ the charity is subject to enforcement action for non-submission of accounts.

Clear definitions and guidance will be provided on the content of the new return, which will be available both during completion online and as a separate document to view or download. The 2014 return form and new guidance have been made available from January 2014.

Public benefit

In September 2013 the Charity Commission issued its revised public benefit guidance. The guidance now comprises 3 short high-level guides:

- ▶ [Public Benefit: the public benefit requirement](#)
- ▶ [Public Benefit: running a charity](#)
- ▶ [Public Benefit: reporting](#)

The guides also explain that the trustees of charities which charge fees for services or facilities that the poor cannot afford must make provision for the poor to benefit. It is for trustees - not the Commission or the courts - to decide how to do this, but they must act reasonably and make more than a minimal provision.

The Guide "Running a Charity" includes in Annex C guidance on Charities charging for services. This makes it clear that "It is for a charity's trustees to decide, taking into account all the circumstances of their charity, what provision (in addition to what would be more than minimal or token provision) to make to enable the poor to benefit".

Charity trustees continue to be required to make a statement in their Annual Report whether they have, in making decisions about the charity's activities, had due regard to the Commission's public benefit guidance when exercising any powers or duties to which the guidance is relevant and it is therefore important that the charity's trustees are aware of this new guidance.

Future pension reporting under FRS 102

For charities with continuing defined benefits pension scheme liabilities, there will be some potentially significant differences between the current FRS 17 accounting requirements and the approach to pensions accounting required under FRS 102. As FRS 102 was derived from the International Accounting Standard Board's IFRS for SMEs (International Financial Reporting Standard for Small and Medium Sized Entities), reporting for pension schemes under FRS 102 is similar to reporting under the International Accounting Standard, IAS 19, albeit slightly simplified.

The main difference for the future reporting under FRS 102 relates to the calculation of the pensions net financing cost. This cost currently comprises the net of the expected returns on the scheme assets as determined by the actuary and an estimated interest cost on the scheme liabilities. Currently the assumed rate of return on the assets is usually significantly higher than rate of "interest" on the liabilities. However, under FRS 102 the expected return on assets will be calculated using the discount rate so that no credit is taken for the expected outperformance on the Plan assets.

There are also differences in the treatment of any surpluses under the two standards should this become relevant in the future. If you would like to discuss any specific implications from the future accounting changes please let us know.

Flat-rate state pensions from April 2016

The Chancellor has confirmed the Government's proposals that the flat-rate state pension will start in April 2016 - a year earlier than previously planned. This will impact on employers and employees who currently contribute to pension schemes which are accepted for the purposes of contracting-out of the State Earnings Related Pension Scheme and the State Second Pension.

Employers will no longer receive the current contracted-out NI rebate for salary-related pension schemes and will therefore have to pay 3.4% extra in NI contributions. Employees will be required to pay an extra 1.4% in NI contributions.

Clearly it will be important that charities recognise these future NI changes in their budgeting and other considerations for future years.



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www.croweclarkwhitehill.co.uk

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