



IPPF International
Planned Parenthood
Federation

EXTERNAL AUDIT MANUAL

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INTRODUCTION

The External Audit Manual ("the Manual") has been developed to assist Member Associations ("Associations"), Regional Offices and their external auditors in meeting the special accounting, auditing and reporting requirements of the International Planned Parenthood Federation ("IPPF"). The requirements and guidance contained in the Manual apply to the preparation and audit of an Association's financial statements prepared for IPPF purposes, and may differ from local statutory accounting and auditing requirements.

This version of the Manual also sets out, for the first time, the requirements and guidance for Member Associations External Auditors to undertake additional audit in respect of the financial component of the IPPF Accreditation Standards. This work is included in the Financial Accreditation Control Evaluation programme to be undertaken every three years by core grant receiving Member Associations receiving total grants (restricted and unrestricted) of US\$300,000 or more.

In addition, the Manual requires that from 2011 onwards all Member Associations should include a Statement of Internal Control (SIC) within their financial statements, to be signed by the Association's Executive Director.

Questions arising concerning the contents of the Manual or in respect of any other accounting, auditing and reporting matter which affects the Association's accounts should be addressed to the appropriate IPPF Regional Office for clarification.

This Manual is to be followed for all financial periods ending 31 December 2010, and subsequently. Responsibility for updating the Manual is undertaken by IPPF Central Office in consultation with relevant Regional Office staff. It is intended that the most up-to-date version together with a summary of amendments which have been made will be available to Associations via the IPPF intranet site www.ippf.net.

London, October 2010

TABLE OF CONTENTS

EXTERNAL AUDIT MANUAL

SECTION A – General Considerations

1.	The need for independent audits	1
2.	Financial Accreditation Control Evaluation (FACE)	1
3.	The requirement for auditors of international standing	1
4.	Appointment and remuneration of external auditors	2
5.	Auditing and reporting standards	2
6.	Accounting policies and principles	3
7.	Statement of Internal Control (SIC)	3
8..	Distribution of audited accounts and management letter	3

SECTION B – Letter of Engagement

1.	Purposes of a letter of engagement	5
2.	Fee estimates	5
3.	Model letter of engagement	7

SECTION C – Management Letter

1.	Purposes and general requirements	11
2.	Contents and format of Management Letter	11
3.	Reporting action plans to Regional Director	12

SECTION D – IPPF Uniform Accounting Policies

1.	Purpose of uniform accounting policies	13
2.	The standard IPPF accounting policies	13

SECTION E – The Auditor’s Report

- | | | |
|----|--------------------------------------|----|
| 1. | General reporting standards | 18 |
| 2. | Sample format of the Auditors Report | 18 |
| 3. | Qualified opinion | 19 |

SECTION F – Model IPPF Financial Statements

- | | | |
|----|--|----|
| 1. | Introduction | 20 |
| 2. | Model formats | |
| | 2.1 Balance Sheet | 23 |
| | 2.2 Statement of Income, Expenses & Changes in Fund Balances | 25 |
| | 2.3 Statement of Functional Expenses | 27 |
| 3. | Notes to the Financial Statements | 28 |

SECTION G – Other Points of Principle/Requests

- | | | |
|----|--------------------------------------|----|
| 1. | Scope of IPPF financial statements | 37 |
| 2. | IPPF funding | 37 |
| 3. | Documents to be provided to auditors | 37 |
| 4. | Reconciliation to Annual Reports | 37 |

SECTION H – Interpretation of Requirements

- | | | |
|----|---------------------------------|----|
| 1. | Introduction to this section | 39 |
| 2. | Translation policy - an example | 39 |

SECTION I - IPPF Financial Policies & Standards and Responsibilities of IPPF Membership

- | | | |
|----|--|----|
| 1. | Introduction | 41 |
| 2. | Expenses and payments to volunteers | 41 |
| 3. | Member Association Building Loans | 47 |
| 4. | Member Association Reserves and Local Resource Development | 48 |

SECTION J – Exceptions to Full EAM Compliance

- | | | |
|----|---|----|
| 1. | Associations receiving IPPF funding of US\$50,000 or less | 51 |
|----|---|----|

SECTION K – Financial Accreditation Control Evaluation (FACE) audit methodology

1.	Introduction	52
2.	Financial Accreditation Standards identified for evaluation	52
3.	Auditor Evaluation Methodology	53
4.	Outome of process	53

Annex A-	IPPF approved auditing firms	55
Annex B-	Checklist for actions taken prior to signing financial statements	56
Annex C-	Fixed Asset Definitions	60
Annex D-	Statement of Internal Control (SIC) template	61
Annex E-	Financial Accreditation Control Evaluation (FACE) audit tool (separate excel document)	

1. The need for independent audits

As an international voluntary body, the Federation as a whole and each of its members has the responsibility of accounting to members and donors:

- for the effective and efficient financial management of the IPPF Secretariat and member associations: and
- for resources provided by *all* donors including IPPF.

Audited financial statements are one of the means of demonstrating the discharge of these responsibilities. The external auditor's role is to give an *independent* opinion on the fair presentation of the financial statements and, thus, the extent to which the reader may rely on them. Accordingly, the Governing Council of IPPF recognizes the importance of independent audits and requires audited financial statements to be submitted annually by grant receiving Associations. For this reason, the Funding Agreement specifies that the grant is conditional upon delivery of audited financial statements.

2. Financial Accreditation Control Evaluation (FACE)

The accreditation process, as set out in the IPPF Standards and Responsibilities for Membership, is a tool for Member Association self reflection and improvement, and represents a key mechanism for ensuring accountability to clients and donors. From 2011 the FACE audit programme must be undertaken by external auditors for all core grant receiving member associations receiving total grants (unrestricted and restricted) equal to or greater than US\$300,000 in 2010, to provide independent assurance on Member Association compliance with the financial accreditation standards.

This work should be undertaken every three years (more frequently if weaknesses are identified). FACE scores should reported to Regional Offices and provided to Central Office at the same time as the annual audited financial statements. The FACE methodology is set out in Section J, with the audit tool attached as Annex E. The impact on external audit engagement letters and management letters is set out in the respective sections of this manual.

3. The requirement for auditors of international standing

In order to maximize the credibility of the auditors' opinion, it follows that auditors engaged should be chosen from those who are recognized internationally. Accordingly, IPPF requires that Member Associations (referred to as Associations) should engage only firms that are included in the IPPF List of approved audit firms. This list is updated at least annually and is available on request from the Regional Offices. The current list is attached in Annex A.

These firms (or their correspondents) offer virtually worldwide services.

As the Governing Council has delegated to the Director-General the responsibility for ensuring that the auditors of grant receiving Associations hold internationally acceptable qualifications any Association engaging a firm other than those on the approved list *must* have their choice approved by the Regional Director on an annual basis.

4. Appointment and remuneration of external auditors

The auditors should be appointed by the governing body of the Association and their re-appointment, as indicated by the letter of engagement (see Section B), confirmed annually. The Regional Director must be advised in advance of any proposed change of auditors together with the detailed reasons for the change. The change should not be effected before the Regional Director's approval is received. Where an Association is being newly formed or being aligned for IPPF membership and funding, the Regional Director should be informed in advance as to which audit firm is being proposed for appointment in order to provide their approval.

The highest professional standards and strict adherence to deadlines are demanded. In the past some auditors have excused sub-standard services on the grounds that fees have been reduced to charity levels. This is not acceptable.

5. Auditing and Reporting Standards

The annual audit of an Association's financial statements must be conducted in accordance with a comprehensive body of generally accepted auditing standards. For IPPF auditing and reporting purposes, this shall mean standards, or their equivalent, issued by either the Institute of Chartered Accountants in England and Wales (UK Generally Accepted Accounting Practice, UK GAAP), the American Institute of Certified Public Accountants in the United States of America (US Generally Accepted Accounting Principles, US GAAP) or the International Accounting Standards Committee (International Accounting Standards, IAS). IPPF is aware of the general movement towards IAS and that in most cases Associations will prepare their financial statements according to these.

Additional guidance concerning IPPF's auditing and reporting requirements is contained in Sections B, C and E of the Manual. Associations and their external auditors should note particularly the specific audit procedures which are outlined in the sample letter of engagement (see Section B.3). Such procedures, which are not all-inclusive and are not intended to limit the external auditors' professional responsibilities or judgment, should normally be performed in order to meet the unique needs of IPPF.

6. Accounting policies and principles

In order to enhance the usefulness and comparability of financial information, IPPF has adopted certain standard accounting policies and principles which should be applied in preparing the Association's financial statements for IPPF purposes. Such standard accounting policies and principles conform, in all material respects, to generally accepted accounting principles in either the United Kingdom, the United States of America or as outlined by the International Accounting Standards Committee.

The significant accounting policies and principles which have been adopted by IPPF are outlined in Section D of the Manual.

It is recognized that the accounting policies and principles applied for IPPF reporting purposes, including the format and content of financial statements, may differ from those adopted or prescribed for local statutory purposes. It is recommended, however, that Associations align their statutory accounting policies and financial statements with those of IPPF whenever possible to reduce internal administrative expenses and external audit costs.

The reporting accounting period of IPPF is January to December. IPPF requires Associations to prepare their financial statements on a similar basis.

7. Statement of Internal Control (SIC)

As part of their annual report and financial statements, The Member Association's accountable officer (Executive Director) is required to make a formal Statement of Internal Control, in which they confirm that they have reviewed the internal control arrangements in place at their Association, and make an affirmative statement (or otherwise) that adequate arrangements have been in place for the year in question. A template for this statement is provided in Annex D.

8. Distribution of Audited accounts, Management letter and FACE scores

IPPF requires that the following documents should be submitted, preferably as one package:

	IPPF Central Office	IPPF Regional Office
Audited Financial Statements and Auditor's report – final	1	1
Management Letter	1	1
Reconciliation of IPPF Annual Report to audited accounts	1	1
Checklist of Actions to be taken	-	1
FACE scores (every 3 years, where total grants > US\$300,000)	1	1

The Association should advise the Auditors of the due dates for these documents taking into consideration the deadlines for submission stipulated in the IPPF Funding Agreement. It is recommended that key dates are included in the engagement letter.

The Association should also arrange with the Auditors the number of copies needed by the Association for local requirements.

IPPF Central Office is able to accept electronic submission of scanned copies of the requested documents so long as they are provided in a standard PDF. This reduces the cost of sending documents and increases the speed at which we can receive and process them.

1. Purposes of a letter of engagement

Once the governing body of the Association has made the annual selection of external auditors, the Executive Director should obtain a signed letter of engagement from the external auditors confirming their acceptance of the audit appointment and outlining the respective responsibilities of the Association's management and the external auditors. A copy of the engagement letter and the external auditors' acknowledgement letter should be retained for Regional Office verification. It is good practice to ensure that engagement letters are in place well in advance of the financial year end in order not to delay the audit process.

The major purposes of the letter of engagement are to:

- ensure that the external auditors and the Association are both fully aware of their respective responsibilities and obligations;
- formalize the contractual relationship between the Association and the auditors.

As a guide to the form and content of the letter of engagement, a model letter is shown below. It is recognized, however, that many of the international accounting firms have developed their own form of an engagement or acknowledgement letter, which may differ by country or jurisdiction because of local legal and professional requirements. Such letters will be considered acceptable if they clearly state the respective responsibilities of the Association and the external auditors; and the external auditors responsibility to perform the specific procedures outlined in the model letter.

Please note that engagement letters should also be in place in respect of the FACE programme of work, where this is required. We anticipate that most external auditors will require that this is performed as a specified procedures engagement, separate to the main financial statements audit engagement.

2. Fee estimates

As shown in the model letter of engagement, it is anticipated that before engaging the auditors, a fee estimate will be obtained from them. The actual fees charged may differ, of course, from the fee estimate because of a variety of factors. Nevertheless, the fee estimate provides budgetary control; the auditors should notify the Association of projected additional fees on a timely basis and should agree increases with the Association before undertaking further work beyond that planned for in the original fee estimate. It is useful for Associations to agree a list of audit deliverables together with estimated deadlines in order to ensure that both the Association and the auditors are clear as to when information will be provided and who is responsible for the tasks (e.g. draft financial statements, interim audit visit, final audit visit, date for management letter points and responses, final sign-off date for financial statements and audit opinion etc).

Where and when the FACE work programme is also to be undertaken, an additional fee should be negotiated for this work and borne by the Association. We would expect that that the additional cost would be no greater than 10% of the overall external audit fee.

3. Model letter of engagement

Member Association Letterhead

[Date]

[The External Auditors]

Dear Sirs,

We are pleased to inform you that we have approved your appointment as auditors of *[name of Association]* for the year ending 31 December 20xx at an estimated fee of *[amount]*.

A General

We confirm that we are responsible for the financial statements and that your responsibility is to express an opinion on the financial statements based on your audits. However, in conjunction with your audit, you will provide assistance to us in preparing the financial statements and notes thereto in accordance with the requirements and guidance contained in the IPPF External Audit Manual. *[Note: Insert the preceding sentence if such assistance is contemplated].*

Your audit must be conducted in accordance with generally accepted international auditing standards as defined in Section A4 of the External Audit Manual. We understand that you will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Accordingly, your audit will include the examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, and an assessment of the accounting principles used and significant estimates made, as well as an evaluation of the overall financial statement presentation. In the light of the specific requirements of IPPF, we would expect your audit to include but not be limited to the specific procedures outlined below and which may be undertaken during an interim and/or final audit.

- (i) Ascertaining that the Association's activities have been conducted in conformity with the IPPF Funding Agreement, as well as Agreements entered into with other grantors, and establishing that both direct and indirect costs have been apportioned to projects in accordance with these Agreements.
- (ii) Visits to branches/clinics of the Association, as you consider necessary, to enable you to assess the adequacy of internal control systems and procedures, and the accuracy of inventory counts.
- (iii) Review and evaluate key accounting controls and procedures surrounding significant accounting functions and applications. *[Note: The Association should consider specifying, in consultation with the auditors, the key accounting areas/functions/systems/applications such as cash and cash management, project cost accounting, budgetary control systems and*

procedures, payroll, fixed assets, contraceptives and commodity controls, etc].

- (iv) Review the adequacy of insurance cover on the Association's assets and third party and employment risks.
- (v) Review the minutes of meetings of the Governing Body and subsidiary committees to ensure that operations have been carried out in accordance with approved resolutions.
- (vi) Review the Association's designated and restricted reserves to ascertain that they conform with both IPPF policies and local customary or legal practice in terms of their adequacy and use.
- (vii) Review post balance sheet date operations and events and the evaluation of their possible impact on the Association's financial statements.

Note: Certain audit procedures have become standard under virtually all bodies of professional auditing standards, including but not limited to:

- confirmation of bank balances and investment directly with banks and custodians;
- confirmation of grants and other receivables directly with donors and other third parties;
- attendance at and observation of physical inventories (as above);
- physical identification of fixed assets, particularly major acquisitions during the year;
- review and testing of subsequent disbursements to ensure that all significant liabilities are recorded.

Since generally accepted auditing standards usually require these and other procedures to be carried out they need not be specifically listed in the engagement letter. However, Associations may list such procedures or any other significant procedures deemed desirable or appropriate in the letter of engagement.

B Financial Accreditation Control Evaluation (FACE) *Where applicable*

In conjunction with your financial statements audit, we have appointed you to undertake the Financial Accreditation Control Evaluation (FACE) audit programme (document for completion and submission is attached to this letter).

Note: the external auditors may undertake this as a separate 'specified procedures' engagement. Where this is the case, a separate engagement letter may be signed in line with standard audit practice

in the respective country. As a minimum, this document should include:

- *Scope of the Services (procedures as set out the FACE programme tool to be attached as an appendix);*
- *Timetable for the work;*
- *Audit team responsible for the engagement; and*
- *Fee arrangements.*

C Management Letters

In conjunction with your audit, we would expect you to note operating and internal control procedures which could be improved. These, together with internal control weaknesses and any other significant matters which come to your attention should be reported in a formal Management Letter. They should indicate explicitly, amongst others, as to whether:

- Proper accounting records have been maintained;
- The IPPF and other donor grants have been applied for the purposes intended;
- The Association's internal control systems are adequate and comprehensive and comply with the obligations placed on it by IPPF and other donors as set out in the IPPF External Audit Manual, the IPPF and other donor funding agreements, the IPPF Standards and Responsibilities of Membership and other local requirements. Where applicable, this should include the results of FACE work undertaken at the Member Association;
- The revenue, expenditure and cash positions have been correctly disclosed in reports sent to IPPF and other donors;
- Operations of the Association have been carried out in accordance with the approved resolutions of the governing body;
- Pension contributions, local taxes and other statutory payments have been paid by the Association in accordance with requirements;
- Insurance cover on the Association's assets are adequate.

This Management Letter will also contain your recommendations and comments thereon by the Chief Executive Officer of the Association. The status of outstanding recommendations from previous Management Letters should also be included in the current Management Letter. As agreed, the Management Letter will be issued by [*date as agreed*].

D Other Matters

We confirm that the financial statements and notes are to be prepared in accordance with, and in the format prescribed in, the IPPF External Audit

Manual, a copy of which has been provided to you. These financial statements are to be expressed in both *[local currency]* and US dollars and in English/Spanish/French/Arabic *(state as appropriate)*. The financial statements and your audit report thereon will be issued by you no later than *[date as agreed]*.

In addition you will assist us in preparing the required reconciliation of net incoming/(outgoing) resources between our IPPF annual report (i.e. the standard IPPF annual reporting package due by the end of February) and the Association's audited financial statements (see Section F of the External Audit Manual). Such reconciliation should include explanations of all significant differences between the two reports.

We would appreciate your confirming, in writing, your acceptance of the appointment and of the requirements outlined in this letter. *[Note: This can be done by either a separate acknowledgement letter from the external auditors or by issuing two signed copies of the letter of engagement one of which should be countersigned by the external auditors and returned to the Association].*

Yours faithfully,

(Association Chief Executive Officer)

We accept the appointment as auditors together with the requirements outlined in this letter of engagement.

(Signature of External Auditors)

Date

1. Purpose and general requirements

The maintenance of a sound control environment, including strong systems of internal accounting controls and procedures, is a top priority of IPPF. It is expected that as part of their audit, the external auditors will review and evaluate the Association's internal controls and procedures to determine the extent to which these can be relied upon for audit purposes. Further, it is expected that the external auditors will identify areas where operating systems or procedures could be improved, as well as any other significant matter or issue which comes to their attention during the course of their audit.

As is customary, IPPF expects the external auditors to report internal control weaknesses and areas of control or operating procedures which could be improved in a formal management letter (also often referred to as an internal control report). The external auditors should issue this management letter, annually, shortly after the audit is completed.

Where applicable, this should include the results of FACE work undertaken at the Member Association, with a brief summary of the outcome of the work programme, issues identified and actions recommended to address cases of non compliance.

In certain instances, which are expected to be rare, the auditors may not identify any internal control weaknesses or potential improvements in operating procedures. In these cases, the external auditors should issue a formal letter to the Association stating that no points or recommendations are presented as a result of their audit work. This letter should also summarize the status of outstanding points raised in prior management letters.

A copy of the management letter should be forwarded by the Association to the Regional Director, together with the action plan discussed at 3 below.

2. Contents and format of Management Letter

Whilst IPPF does not prescribe a specific format for management letters, it is expected that the matters listed in Section B, Model Engagement Letter, paragraph B will be referred to.

A summary of the status of outstanding points raised in prior management letters typically in outline form should be included as an appendix.

Management letters are most effective when issued on a timely basis. Accordingly, external auditors should strive to issue the formal management letter within a few weeks of the completion of the audit.

Association management must, provide their comments to the external auditors promptly to ensure that this timetable can be met.

3. Reporting action plans to Regional Director

In addition to its response to each point raised in the management letter, the Association should send to the Regional Director a summary of its plans for implementing the auditors' recommendations together with an implementation timetable. Where the Association has decided not to implement a recommendation, the reason for the decision should be given (e.g. the cost of implementation could outweigh the benefits). However, if a recommendation will not be implemented (or where implementation will be long delayed) the Association should indicate the measures taken or to be taken to ensure that the identified weaknesses will not result in material misstatement in the accounts.

Action plans must accompany all management letters.

IPPF may be able to provide technical assistance to an Association to resolve difficult internal control and related implementation issues.

Where the FACE audit programme has been undertaken and cases of non compliance identified, this should be included in the management letter action plan shared with the Regional Director.

1. Purpose of uniform accounting policies

The IPPF has responsibility for monitoring the activities and financial information of grant-receiving organizations including Member Associations. The use of uniform accounting policies and standard financial reporting formats facilitates this task and that of comparing financial information submitted by member organizations; as well as the preparation of combined financial reporting which are useful for fund raising and other purposes. IPPF recommends that accounting policies are formally reviewed on an annual basis to ensure that they continue to reflect accurately all the activities within the organization.

2. The standard IPPF accounting policies

2.1 New or additional accounting policies may be added from time to time by IPPF. However, as a general rule, generally accepted accounting principles as defined by the International Accounting Standards Committee should be applied in the absence of specific IPPF accounting policies.

2.2 Financial Statements to be prepared:

(a) under the historical cost convention as modified, if UK accounting principles are applicable, for the revaluation of freehold or leasehold properties. US GAAP generally prohibits revaluations.

(b) on an accruals basis of accounting; i.e. all known receivables and payables are taken into account in the year-end balance sheet.

The basic assumptions of going-concern and accruals are presumed to underlie financial statements prepared under each framework (IAS, UK GAAP and US GAAP), with understandability, relevance, reliability and comparability as the main attributes to be considered in selecting accounting policies.

2.3 Translation of local currency financial statements

2.3.1 The IPPF's reporting currency is the US dollar. Accordingly, financial statements which are maintained in local currency shall be translated into US dollars as described below.

(a) transactions and balances which are denominated or expressed in US dollars shall be shown in the US dollars accounts at the actual US dollar amount received or paid.

(b) all other income and expenditure in local currency should be translated into US dollars using the average exchange rate obtained from the exchange of US dollars during the period.

- (c) all assets and liabilities should be translated into US dollars at the exchange rate prevailing as at the year-end, i.e. 31 December.
- (d) exchange differences arising from translation should be taken directly to reserves/fund balances. (i.e. not recognized in the income and expenditure statement).

2.3.2 An example showing the application of IPPF's translation policy is contained in Section H of the Manual. The example does not address the conversion and translation of local currencies in countries experiencing hyper-inflation. In the case of hyper-inflationary economies, the relevant provisions of (International Accounting Standards) IAS 21: The effects of changes in foreign exchange rates, and IAS 29: Financial reporting in hyper-inflationary economies, should be applied.

2.4 Fixed assets and depreciation

2.4.1 Freehold land and buildings shall be capitalized at cost. As permitted under UK or equivalent generally accepted accounting principles, if applicable, such property may be revalued in the balance sheet based on a valuation performed by a reputable independent appraiser.

2.4.2 Land and buildings held under a long term lease which qualifies as a capital lease under the relevant generally accepted accounting principles shall be capitalized and amortized in accordance with the applicable accounting standards. Revaluations of such leaseholds shall be permitted if appropriate.

2.4.3 Leasehold improvements shall be capitalized and amortized over the estimated economic life or the term of the lease, whichever is shorter.

2.4.4 All other fixed assets shall be capitalized at full cost. If a policy of revaluation of fixed assets is applied, it must be done on a consistent basis to cover all fixed assets and this should be done periodically, as appropriate. In situations where the value of a fixed asset is impaired the asset should be written-down to its realizable value).

2.4.5 Fixed assets received from the IPPF shall be capitalized at full cost. This would normally include customs, clearing and forwarding charges, together with IPPF handling charges.

2.4.6 Where fixed assets are donated but the donor does not provide a value and one is otherwise unobtainable the current IPPF commodity price list should be used to do so. If this is not applicable the IPPF Regional Office should be consulted.

2.4.7 The above guidance notwithstanding, individual fixed assets with a

cost or replacement value of less than \$1,000 (or some lesser limit established by the Association based on materiality factors) need not be capitalized but may be charged to expense in the year of acquisition.

2.4.8 Fixed assets, except freehold land, shall be depreciated, assuming nil scrap or residual value, on a straight-line basis in accordance with the following recommended useful lives:

	<i>Recommended</i>	<i>Acceptable Range</i>
Buildings	20 years	15 - 30 years
Furniture and Fixtures	10 years	7 - 12 years
Computer Equipment	3 years	2 - 5 years
Vehicles	5 years	3 - 7 years
Audio Visual Equipment	3 years	2 - 5 years
Other	5 years	As Appropriate

Where local regulations stipulate different depreciation and revaluation methods these may be followed but the method used should be disclosed fully in the notes to the accounts.

2.4.9 When fixed assets are sold the sale proceeds are often not freely usable by the Association; in such cases, the income should be credited to a designated reserve such as a Commodity/Asset Replacement Fund. In any event, the gross capitalized amount and related accumulated depreciation/amortization of the asset should be removed from the balance sheet upon sale or other disposition of the asset.

2.4.10 Finance leases, Hire Purchase agreements, and any other form of lease agreement where the present value of the lease payments is 90% or more of the estimated value of the asset concerned, should be capitalized.

2.5 Fixed Assets Grants

2.5.1 The value of fixed assets received as donations should be brought fully into income in the year of receipt. The value of this income shall be calculated as outlined in points 2.4.5 and 2.4.6 above.

2.6 Inventories of contraceptives and other consumables

2.6.1 Contraceptives should be capitalized where control and title is not in question. Other inventory items should be selected to be capitalized based upon materiality factors and in accordance with local generally accepted accounting principles.

- 2.6.2 Inventories purchased locally should be capitalized at cost.
- 2.6.3 Locally donated inventories should be capitalized at current local cost. Where the donor does not provide a value and one is otherwise unobtainable, the current IPPF commodity price list should be used to do so. If this is not applicable the IPPF Regional Office should be consulted.
- 2.6.4 Inventories received from IPPF should be capitalized at full cost. This would normally include local customs, clearing and forwarding charges, together with the IPPF Management charges.
- 2.6.5 The value of sales or other disposals/consumptions of inventories should be brought into expenditure using the first in, first out ("FIFO") method.
- 2.6.6 Where local regulations stipulate different depreciation and revaluation methods these may be followed but the method used should be disclosed fully in the notes to the accounts.

2.7 Donated Supplies - Inventories

- 2.7.1 The value of inventories donated should be brought fully into income in the year of receipt. The value of this income shall be calculated as outlined in points 2.6.3, 2.6.4 and 2.6.5 above

2.8 Restricted Income

- 2.8.1 Where income from other donors is restricted for specific activities, (i.e. not a general support grant for the Association's core activities) this should be brought fully into income in the year of receipt. Fund accounting principles should apply, with any excess or deficit of income over expenditure for the year being carried forward to the donor's Fund Balance.
- 2.8.2 Where, exceptionally, donor agreements specify that grants are for activities in future years, deferred income principles should apply; see 2.9 below.

2.9 Deferred Income

- 2.9.1 Where restricted income is stated in the donor Agreement as being specifically for a future accounting period, this Deferred Income should be reflected as a Current Liability rather than as a Fund Balance in the Balance Sheet.

2.10 Conflict of donor accounting policies for fixed assets and inventories

- 2.10.1 Some donors classify local purchases of fixed assets and inventories as project costs which should be charged against their Fund Balance

rather than being capitalized. It is an IPPF requirement that the financial statements reflect full disclosure, and that accounting policies are consistently applied.

2.10.2 In these instances, the assets concerned should be capitalized and reflected in the accounts as donor restricted assets. A reconciliation between the resulting figure and the donors' records should be provided as a footnote to the Statement of the donor's Fund Balance.

2.11 Carry forward of project funds

2.11.1 IPPF provides core funding for activities to be carried out in the year of approval only. Where approved programme funds are not used fully in the year in which they are received, no reserve should be made in the accounts to carry forward these balances to the following year unless the Regional Director has given written authorization to do so. Without such evidence of Regional Director approval, the external auditors should disallow the creation of such a reserve. Regional Directors will only provide such approvals up to 31 January following the financial year end in order to support the prompt closure of financial periods and allow IPPF to complete their financial reporting on a timely basis. Where funds were not received during the year but IPPF have agreed to pay these in the following year the amounts will appear on the grant confirmation certificate as an accrual and should be reflected in income by raising the appropriate donor receivable. These normally occur where the association has failed to provide information by the agreed date in the funding agreement and until the information is supplied funds are not released by Central Office. If the funds are not included in the grant confirmation certificate this indicates that IPPF have closed that financial year and no further payments will be made.

1. General reporting standards

As professional auditing organizations in various countries have adopted different standards and formats for auditors' reports it is not considered appropriate to prescribe a single standard format of the auditors' report on an Association's financial statements. However, for countries which do not have such standards, a suggested format, based on UK standards, is included for guidance purposes in item 2 below.

2. Sample format for the Auditors' Report

Auditors Report to the Board of (name of the Association)

We have audited the financial statements on pages...to ... which have been prepared under the historical cost convention [as modified by the revaluation of certain fixed assets] and the accounting policies set out on page....

Respective responsibilities of the Board and auditors

The Association's Board is responsible for the preparation of financial statements. We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion the association has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Association's affairs as at 31 December 20XX and of its income and expenditure for the year then ended.

3. Qualified opinions

In some jurisdictions a change in accounting principle will require a reference in the auditors' report and, in some cases, a qualification of the auditors' report in respect of consistency. IPPF will accept qualifications/references in auditors' reports concerning such changes in accounting principles.

Other qualifications (such as scope restrictions and other exceptions to GAAP) are not normally acceptable. It is expected that auditors will extend scope where necessary or that the Association will conform their accounts to generally accepted accounting principles to obviate the need for these types of qualifications. However, in the rare instance where such qualifications cannot be eliminated, the IPPF's Regional Director should be notified by the Association immediately it is known that a qualified opinion will be issued and the reasons for this.

IPPF notes with concern recent instances where serious issues were raised in the management letter of a Member Association but which did not lead to the qualification of the audit opinion. External auditors have a duty under auditing standards to ensure that where serious issues are raised concerning the integrity of the financial system or the going-concern principle that this results in their opinion being qualified. Recent instances of significant weaknesses in the accounting records, the accuracy of the financial statements in reflecting consolidation of branches within the member association and general going-concern issues due to unpaid debts were noted but had not been reflected in a qualified opinion. This then undermines the assurance that IPPF can place on the audited financial statements.

Regional Directors may in such circumstances place concerns about the quality of the external auditors performance in writing to the Member Association and request the Association to consider not re-appointing that firm of external auditors.

1. Introduction

The recognized standard format for financial statements is:

- Annual report of the Board;
- Accountable Officer's Statement of Internal Control (signed by Executive Director)
- Auditor's statement of opinion on the financial statements;
- Income and Expenditure account;
- Balance Sheet;
- Cash flow statement;
- Notes to the Accounts (the first note being the accounting policies).

IPPF does not stipulate that the above format should be followed in that order but do strongly recommend it.

The financial statements should be preceded by the Annual Report of the Association's Board of Directors. This Report should be written with a view to resource mobilization, informing current donors of the benefits derived from their support and persuading potential donors of the need for additional support.

IPPF does not require an exact format for this report, but it should in general terms follow the planning and reporting format of the electronic Integrated Management System (eIMS) and should provide:

- Brief historical information on the development of the Association.
- Details of the Board of Directors and other decision-making bodies, including the responsibilities of these bodies (where there have been changes in the Board during the year the specific dates when members resigned or were appointed should be noted).
- An overview of the organisational structure.
- The Association's Mission Statement together with goals and objectives.
- A review of the Association's programme projects, for the year being reported and the key achievements.
- A financial review in narrative form (income, expenditure and level of reserves at year end).
- Future year(s) outlook.

This report should be signed by the Association's President, as Chair of the Board, and the Treasurer at the date on which the annual report and financial statements were approved by the Board.

(Note. Associations may also precede the Board's Annual Report with contact names and addresses of the Association's Head Office and Branches together with their Bankers, Lawyers and External Auditors).

In addition, the financial statements should include formal Statement of Internal Control, in which the Executive Director confirms that he or she has reviewed the internal control arrangements in place at their Association, and makes an affirmative statement (or otherwise) that adequate arrangements have been in place for the year in question. The template for this statement is attached in Annex D.

2. Model formats

2.1 The Balance Sheet

This presents year-end information in both local currency and US dollars, subdividing between Unrestricted and Donor Restricted. Associations should only include categories that are appropriate.

The Balance Sheet should be signed by the appropriate representatives of the Association's Board, usually the President and Treasurer on the date on which the Board approved them.

2.2 Statement of Income, Expenses and Changes in Fund Balances

This should be prepared on the all-inclusive principle and reflect all sources of income and expenditure. Fund Accounting principles should apply and accordingly the gross value of fixed assets and inventories received should be recorded as Income for the year. Similarly, the gross amount of Restricted Income receivable from donors should be fully brought into income, and not just that element which relates to the year being reported

Associations should provide analyses of incomes and expenditures as appropriate for their particular circumstances.

2.3 Statement of Functional Expenses

Further analysis of expenditure should be provided on this schedule. The expense categories used should be the same as used in Schedule 1A of the IPPF Funding Agreement which is consistent with the reporting format in the electronic Integrated Management System (eIMS). This facilitates easy budgetary comparison and analysis as well as standardising reporting to the wider donor community.

3. Notes to the financial statements

Comprehensive notes to the financial statements are required under the principles of full disclosure and transparency.

Details of the Notes required are given after the model statements. These are not all-inclusive, and Associations should provide additional information if and when appropriate. Instances where additional information should be provided include where there have been exceptional increases or decreases since the previous year. In such situations an explanation should be provided as to why this situation has arisen.

IPPF require separate disclosure as a note of the fees paid to external auditors. This should be split between fees paid for the audit and other professional services provided. For instance, if the Association use the external auditors to assist with the preparation of the financial statements, tax advice or other matters not related to the provision of the audit opinion this should be disclosed under other professional services.

FORMATS FOLLOW

FORMATS FOLLOW

MEMBER ASSOCIATION OF
 BALANCE SHEET AS AT 31 DECEMBER 20..

	Current Year						Prior Year	
	Local Currency			U.S.\$			Total	
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	Local Currency	U.S.\$
ASSETS								
Current assets:								
Cash:								
▪ Current accounts and in hand								
▪ Interest bearing deposit								
Receivables:								
▪ Donors								
▪ Staff loans/advances								
▪ Other debtors								
▪ Accrued interest								
▪ Other assets								
▪ Prepaid expenses								
Inventories (Note 3)								
Total current assets								
Non-current assets:								
▪ Fixed assets (Note 2)								
▪ Investments								
▪ Loan receivable due after 1 yr								
Total non-current assets								
TOTAL ASSETS								

THE MEMBER ASSOCIATION OF
 BALANCE SHEET AS AT 31 DECEMBER 20..

	Current Year						Prior Year	
	Local Currency			U.S. \$			Total Local Currency	Total U.S. \$
	Unrestricted	Donor Restricted	Total	Unrestricted	Donor Restricted	Total		
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Current liabilities:								
Accounts payable (Note 4)								
Accrued expenses (Note 5)								
Provisions (Note 6)								
Donors (Note 7)								
Deferred income (Note 17)								
Total current liabilities								
Non-current liabilities:								
Loans not repayable within 1 year								
TOTAL LIABILITIES								
Fund Balances:								
Donor Restricted (Note 13)								
Designated Funds (Note 13)								
Fixed Assets Fund (Note 13)								
Inventories Fund (Note 13)								
General Fund (Note 13)								
TOTAL FUND BALANCES								
TOTAL LIABILITIES & FUND BALANCES								

NB: The accounts should be signed by the appropriate representatives Board usually the President and Treasurer.

THE MEMBER ASSOCIATION OF
STATEMENT OF INCOME, EXPENSES AND CHANGES IN FUND BALANCES (eIMS report 3 and 4)

Current Year						Prior Year	
Local Currency			U.S. \$			Total Local Currency	Total U.S. Dollars
Unrestricted	Donor Restricted	Total	Unrestricted	Donor Restricted	Total		
Grant Income:							
IPPF Cash Grant							
IPPF Commodity Grant							
Other Income:							
Governments							
Cooperating Agencies							
Foundations/ Trusts / NGO's							
UN Organizations							
Clinical Services							
Other services sales							
Other Income							
Local Donations							
Total Income							

...../continued next page

**THE MEMBER ASSOCIATION OF
STATEMENT OF FUNCTIONAL EXPENSES (eIMS report 2)**

	PROGRAMMES								TOTAL 20..(Current Year)		TOTAL 20..(Prior Year)	
	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Supporting Strategies	Sub-total Direct Expenses	Indirect Expenses	LOCAL CURRENCY	U.S.\$	LOCAL CURRENCY	U.S. \$
Personnel & Benefits												
Professional Fees												
Travel & Per Diem												
Transportation												
Office Supplies & Consumables												
Medical/AV Supplies & Consumables												
Communications												
Occupancy & Utilities												
Depreciation												
Other expenses												
Total at Dec 31 20.. in local currency												
Total at Dec 31 20.. in US\$												

THE MEMBER ASSOCIATION OF.....**NOTES TO THE FINANCIAL STATEMENTS****December 31, 20..****1. Accounting Policies**

The main accounting policies on which the financial statements have been prepared should be disclosed. This would normally include:

:

- Basis of preparation;
- Income recognition;
- Expenditure classification;
- Tangible fixed assets and depreciation;
- Leased assets;
- Deferred income;
- Inventory;
- Provisions;
- Pensions;
- Foreign currency translation;
- Funds.

2. Fixed Assets

	Freehold Property	Leasehold Property	Office Furniture	Office Equipment	Computers & Accessories	Medical/ Clinical Equipment	Vehicles	Other	Total
Cost or valuation									
At 1 January 20..									
Exchange adjustments									
Additions									
Disposals									
At 31 December 20..									
Depreciation									
At 1 January 20..									
Exchange adjustments									
Charge for the year									
Release on disposal									
At 31 December 20..									
Net book values									
At 31 December 20..									
At 31 December 20..									

(Note. The above table should be provided in both US dollars and Local Currency. Further analyses should be provided to differentiate between Restricted and Unrestricted Fixed Assets, if appropriate).

The market value of freehold land and buildings was last estimated by surveyors on (date..) as being (Local Currency and US dollars)

Outstanding loans for purchased land and buildings amounts to:

3. Inventories

(Describe in further detail the items which comprise the inventory balance at the year-end in the balance sheet.)

	Quantity (Unit)	Local Currency	U.S. \$
<i>(List material items by category e.g. clinical supplies, medicines, contraceptives, other stock)</i>			

4. Accounts Payable

(Describe in further detail the items)
Detail in local currency and US dollars
Year being audited and prior year

5. Accrued Expenses

(Describe in further detail the items)
Detail in local currency and US dollars
Year being audited and prior year

6. Provisions

The following provisions existed (detail):

	<u>Local</u> <u>Currency</u>	<u>U.S. \$</u>
Balance at 1 January		
Utilized in year		
Arising in year		
Total as at 31 December	_____	_____

7. Receivable from donors

The following donor receivables relating to the financial year were accrued at the year-end:

	<u>Local</u> <u>Currency</u>	<u>U.S. \$</u>
<i>(List as appropriate)</i>		
Total as at 31 December	_____	_____

8. Contingent Liabilities and Commitments

The following contingent liabilities exist:

(describe)

Contractual commitments entered into but not yet discharged
comprise:
(describe)

Commitments approved but not yet contracted are:
(describe)

9. Currency Translation

U.S. Dollar funds received from IPPF have been converted into local currency in a manner which is in compliance with local foreign exchange regulations.

The rates of translation used in pursuance of the accounting policy per note 1 are:

Balance sheet - year end rate	U.S. \$1 =
Income and expenditure - average rate	U.S. \$1 =

10. Pension Plan

(Describe the liabilities the member association has with regard to any pension plans including the basis of and results of actuarial valuations, if applicable.)

"The pension plan expense for December 31, 20.. and 20.. was *local currency (U.S.\$.....)* respectively. This includes charges for current service and amortization of past service cost over a year period. The actuarial value of vested benefits at December 31, 20.. *exceeded/was lesser than* the total pension fund by an amount of *local currency (U.S. \$.)*."

11. Income Taxes

(Describe the tax status of the member association. Where income tax has been paid this should be disclosed.)

The Member Association of..... is a non-profit-making charity and is, accordingly, exempt from income taxes under ...*quote local law*

12. Audit Fees

(Describe the cost of the fees paid to the external auditors splitting this between the costs of undertaking the audit and other services provided such as fees for assisting in preparing the financial statements, tax advice, consultancy advice etc.)

The fees paid to the external auditors which appear under professional fees were split:

	<u>Local</u>	<u>U.S. \$</u>
	<u>Currency</u>	
Audit fees		
Other professional services		

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NOTE 13 FUNDS AND RESERVES

a) Restricted Reserves

The use of these funds has been restricted by the donor in question, as noted below:

STATEMENT OF CHANGES IN DONOR RESTRICTED FUND BALANCES, YEAR ENDING.....

The following table should be provided on both local currency and US dollars

	Donor X			Donor Y			Donor Z	Total
	Project No.	Project No	Project No	Project No	Project No	Project No	Project No	
Fund Balance at the beginning of the year								
Add receipts during year								
Grant remittances								
Inventories donated								
Fixed Assets donated								
Sub Total								
Expenditure during the year (Analyze as appropriate)								
Total expenditures								
Fund balance at end of year								
Represented by: <u>(the following information need only be included if the Donor(s) concerned required Balance Sheet details)</u>								
Cash at bank and in hand								
Inventories								
Other debtors								
Fixed assets Cost								
Less: Accumulated depreciation								
Accrued expenses (Analyze as appropriate)								
Total								

(Note. In some instances, other donors do not require that Inventories and Fixed Assets, donated or locally purchased with their grant, should be capitalized. Instead they recognize these as legitimate project costs. Accordingly, as it is the accounting policy of the Association to capitalize all these assets, and in order that these financial statements will meet the requirements of the donor concerned, a separate note should be made here, reconciling these two accounting conventions. The following lay-out is suggested:

	Local	US
Fund Balance as stated above		
Adjustment to remove inventory capitalization		
Adjustment to remove fixed assets capitalization		
Fund Balance per donor records		

b) Unrestricted Reserves

Unrestricted funds and reserves are those free of any donor restriction on their use. All of these unrestricted funds and reserves, apart from General Fund, are designated by the Association for specific purposes as noted below.

(The following table should be provided in both local currency and US dollars)

	Building Fund	Special Reserve	Severance Fund	Sub Total Designated Fund	Fixed Assets Fund	Inventories Fund	General Fund	Total
Fund Balance at beginning of year								
Net Incoming/Contingency Resources								
Transfers between funds								
Fund Balances as at.....								

A description and explanation for each of these funds and reserves should be given here including significant movements during the year.

14. IPPF Funding

It is important that the IPPF Funding shown in these financial statements agrees with the records of IPPF, as stated on the IPPF Grant Certificate. In rare instances where this is not the case, a reconciliation of these two figures should be provided. IPPF Central Office issue the grant certificate in late February/early March each year and is available on eIMS. Written authority must be obtained from IPPF for the carry-forward of project funds.

15. IPPF Current Account Balance

It is important that these financial statements should show the correct and agreed amounts payable to, or receivable from IPPF. Accordingly, the figure included in these statements should agree with the IPPF Current Account Certificate. In rare instances where IPPF figures are disputed, and cannot be resolved within the time frame of the preparation of these financial statements, a reconciliation detailing these discrepancies should be provided.

16. Commodity Shipments from IPPF

The intention here is to list items of fixed assets and inventories shipped by IPPF and received by the Association during the year. The importance of this is to focus the Association and auditor in ensuring that IPPF shipping lists match their records and that the value of these debited through current account, have been fully and correctly picked up by the Association.

17. Deferred Income

Donor Restricted Income should be brought fully into income in the year of receipt, as outlined in Point 2.8 of Section D of this Manual. However, as outlined in Point 2.9, Section D of this Manual, there may be circumstances where this income is specifically for a future accounting period. In such circumstances this should be reflected as a current liability rather than as a Fund Balance in the Balance sheet.

Details should be provided in this note to the accounts, in both local currency and US dollars, showing:

	Donor			Total
Balance at the beginning of the year				
Funds Received during the year				
Expenditure during the year (with appropriate analysis)				
Cumulative translation adjustment				
Balance as at 31 December 20..				

18. Employee numbers and emoluments

Associations shall provide information regarding the total number of employees and their total emoluments. This figure will reconcile to the disclosure in the functional expenditure under personnel and benefits.

Staff numbers should include all those on the payroll as well as staff whose salaries are covered by other agencies. Emoluments should include gross salary and all benefits including employer's contributions to pensions, health insurance etc.

19. Board members expenses, allowances and related-party transactions

A statement is required confirming, or otherwise, that the policies outlined in point 2 of Section I of this manual, have been fully observed. If related-party transactions have arisen during the year, details should be provided.

1. Scope of IPPF financial statements

The financial statements should disclose the full operations and financial position of the Association and therefore should:

- include all income and expenditures whether earmarked by donors for specific purposes or not;
- include the consolidated income, expenditures, assets and liabilities of all branches/chapters etc.

2. IPPF funding

IPPF funds are usually remitted in US Dollars. The original gross amount remitted as detailed in the annual IPPF Cash Grant Certificate should be the amount shown in the financial statements, reimbursements or expenses deducted at source and bank charges being allocated to their appropriate heading. IPPF Central Office normally issue these certificates by the end of February/ early March each year. These certificates include any accrued amounts which were not physically remitted to the Association by 31 December but which relate to the year in which the financial statements are being prepared.

3. Documentation to be provided to auditors

The Association should provide the auditors with, at minimum, the following documents:

- Draft Financial Statements (including notes and annual report);
- IPPF Cash and Commodity Grant Certificate;
- IPPF Year end Current Account Statement;
- IPPF Grant Remittance Advices;
- IPPF Funding Agreement and attached Schedules;
- Other Donor Funding Agreements;
- Association Programme Budget in IPPF format;
- IPPF Supplementary Grant Agreements;
- IPPF Building Loan agreement (where applicable);
- IPPF External Audit Manual;
- IPPF Financial Handbook;
- Association Annual Report in IPPF format;
- Prior year Audited Financial Statements.

Any additional information required from IPPF or queries should be addressed to the respective Regional Director.

4. Reconciliation to Annual Reports

The Annual Report (standard IPPF preliminary reporting package) is due for completion by the end of February, i.e. prior to the preparation of the audited financial statements.

Any changes made to the figures in the annual report should be reconciled and a copy of the reconciliation presented with the financial statements, with an explanation as to why these changes were made (e.g. accruals overlooked, branch contraceptive sales not recorded).

The reconciliation should follow the format below.

The Member Association of.....

Reconciliation to Annual Report, December 31, 20XX

Local Currency

Net incoming/(outgoing) resources per Annual Report

Add/(Deduct): *(describe changes and reasons for them)*

Goal 1

- Project
- Project
- Project
- Project

Total Goal 1

Goal 2

- Project
- Project
- Project
- Project
- etc.
- etc.

Supporting Strategies

Indirect Costs

Income (state source)

Net incoming/(outgoing) resources per Audited Accounts

=====

1. Introduction to this section

To help in understanding the requirements set out in previous sections, examples of some of the more complex ones are provided below.

2. Translation policy - an example

Section D.2 requires that translation from the local currency into US dollars is effected as follows:

- (a) transactions originally in US dollars at the original US Dollar amount.
- (b) other income and expenditure items at the average rate for the year.

Average rate is normally arrived at by dividing the local currency receipts by the amount of dollars actually exchanged to obtain them. For example:

	<i>Local Currency</i>	<i>\$ Remitted</i>	<i>Average Rate</i>
IPPF Cash Grants	100,000	130,000	
SIDA	10,500	9,000	
IPAVS	25,000	26,500	
Total \$ Designated Grants	135,500	165,500	0.8187

Therefore an income and expenditure statement would be translated into dollars as follows:

Income:	<i>Local Currency</i>	<i>Exchange Rate</i>	<i>US \$</i>
IPPF Grant	100,000	Actual	130,000
Non IPPF Income:			
SIDA	10,500	Actual	9,000
IPAVS	25,000	Actual	26,500
Contraceptive Sales	10,000	Average	12,214
Other Income	50,000	Average	61,072
Total Income	195,500		238,786

However, in countries experiencing hyper-inflation the relevant provisions of IAS 21 and IAS 29 should be applied.

Expenditure:

	<i>Local Currency</i>	<i>Exchange Rate</i>	<i>US \$</i>
Goal 1	20,000	Average	24,429
2	30,000	Average	36,643
3	10,000	Average	12,214
Supporting Strategies	55,000	Average	67,180
Indirect Costs	90,000	Average	109,930
Total Expenditure	205,000		250,396

Deficit (9,500) Average (11,610)

(c) Balance sheet items

All assets and liabilities should be translated into dollars at the exchange rate prevailing as at December 31, with the cumulative exchange adjustment being included in Reserves/Fund Balances.

The auditors should provide a reconciliation between opening and closing unrestricted reserves.

1. Introduction

IPPF has certain financial policies and procedures which affect an Association's financial statements and of which the Auditors should be aware.

These are contained in the IPPF Policy Handbook which should be made available to the auditors. For details of the most up-to-date IPPF policies please consult the IPPF intranet site and view the details located under Policy. The specific policies which impact the financial statements are contained within the heading Funding and Accounting (Section 3). At present there are 13 policies covering:

- 3.1 Resource Development
- 3.2 Funding Family Planning
- 3.3 Allocation of Resources
- 3.4 Planning, Accounting and Reporting in IPPF and its Constituent Parts
- 3.5 Expenses of and payments to Volunteers
- 3.6 Exchange Rates: Gains and Losses
- 3.7 Working Capital
- 3.8 Relations with the Private Sector
- 3.9 Purchasing
- 3.10 Guidelines for Purchase of Contraceptives
- 3.11 Member Association Building Loans
- 3.12 Emergency Support for Peoples in Countries Facing Disasters
- 3.13 Volunteers and Staff Travel

In addition, all member associations who are members of the IPPF are required to comply with the Standards and Responsibilities of IPPF Membership. IPPF has put in place an Accreditation system to ensure that every 5 years each member association is subject to a review by IPPF staff and volunteers to assess compliance with the standards. Some of the standards cover areas that are traditionally reviewed by external auditors, principally those under 'Member Association Constitutional Provisions' and 'Governance Standards: Responsibilities of the Member Association'. The external auditors should be provided with access to the IPPF Membership Accreditation Guides and Reporting Documents.

The policies and procedures which have particular importance to the auditors are as follows:

2. Expenses and payments to volunteers

Policy No. 3.5 - EXPENSES OF AND PAYMENTS TO VOLUNTEERS

Volunteers who are IPPF Trustees

1. The UK Charities Law requires that a registered charity have a clearly identifiable body of people who are responsible for the general control and management of the administration of the organization. In the UK

these are referred to as “trustees”, but they may be called executive or management committee members, board, council of management, or directors, or they may be referred to by some other title. Whatever the trustees are actually called, their responsibilities, as trustees, are the same.

2. The trustees of IPPF are the thirty elected members of Governing Council.
3. This section of the policy applies to volunteers who represent their regions on the IPPF Governing Council and are IPPF’s trustees. They are subject to the United Kingdom Charities Law and the rules laid down by the Charity Commission.
4. The UK Charities Law states that trustees cannot receive any benefit (which includes payment, services, facilities, funds or other benefits of measurable value) from their charity unless they have express legal authority to do so. This is to uphold the principle that if trustees are not allowed to receive any benefits from their charity they will not have any conflict of interests when they come to allocate resources.
5. The restrictions on payments and other benefits to IPPF trustees apply equally whether the payment or benefit is received directly, or indirectly through a “related party” of the trustee such as a relative or member of the same household, business partner, or company in which the trustee has an interest.
6. Examples of indirect benefits would include:
 - (i) Employment of a relative¹ or member of the same household of a trustee by IPPF or a member association;
 - (ii) Ownership by the trustee or a “related party” of land or buildings rented by a member association;
 - (iii) Payment for goods or services by IPPF or a member association to a company in which the trustee or its “related party” has a directorship position or share ownership over 1%.
7. A more comprehensive list of examples of potential indirect benefits can be found in the Declaration of Material Transactions and Interest form that all trustees complete annually. It is the responsibility of Governing Council members to seek advice from the Secretariat, in case of doubt, as to whether a transaction represents an “indirect benefit”, before it takes place.

¹ The definition of relative is defined as: “grandparents and parents, brothers and sisters, sons and daughters, grandsons and granddaughters and in-laws”.

8. Members of Governing Council, i.e. the trustees of IPPF, should not receive such indirect payments or benefits unless it is necessary and reasonable in the best interest of the Federation and approved in advance by the UK Charity Commission.
9. The refund of legitimate expenses to IPPF trustees are allowed. Expenses are refunds of amounts a trustee has needed to meet personally or which have been met on his or her behalf, in order to carry out trustee duties. Even in the absence of anything specific in the governing document, the law clearly entitles a trustee to repayment from the charity of expenses that have been properly incurred. The law enables the trustee to recover out-of-pocket expenses as long as the trustee does not profit from his or her role as a trustee.
10. It shall be the responsibility of the Director-General to devise suitable systems and procedures to meet the Charity Commission requirements on expenses and payments to IPPF trustees.

Volunteers who are Regional Council Trustees and Member Association Trustees

11. This section of the policy applies to volunteer members of member associations who are not members of IPPF Governing Council but are either:
 - (i) a member of a Regional Council; or
 - (ii) a member of the governing body of the association of which he or she is a member.
12. For the purposes of this policy such persons shall be defined as "Regional Council Trustees" and "Member Association Trustees" respectively.

Payments

13. Generally, neither Regional Councils nor the Governing Bodies of member associations shall make payments to member association volunteers who are exercising a trustee role and responsibilities. This is to avoid creating situations where there may be the potential for a conflict of interest.
14. In this connection the term "payments" shall mean payment by money or other material benefit given to a trustee out of the Region's or a member association's funds in return for a service that the trustee has performed for the region or the member association. This definition includes payments for loss of earnings; and honoraria even if the sum involved is a token one that does not reflect the real value of the service provided.

15. However, it is recognised that there may be occasions, such as where a volunteer has specialised skills or is a leading expert in the field, when the Region or the member association may wish to contract for the volunteer's services.
16. Such payments may be allowed provided certain conditions are met:
 - (i) The person receiving the benefit has had no part in the decision to pay for his or her services. Normally this would mean the member concerned leaving the meeting while the agenda item is discussed and a decision taken.
 - (ii) The payments are for a specific purpose and a limited period. No payments should be made for non-specific services or on an open-ended basis.
 - (iii) Their rights as volunteers are suspended at the level at which they are functioning for the period during which the contract is in operation. Thus a member association Board member who is receiving a fee or an honorarium for services provided cannot serve in this capacity until the contract is completed. Nor would they be able to serve as a Regional Council member during this period.

Loans

17. Loans shall not be made to any Regional Council or member association trustee from Regional or member association funds.

Expenses

18. Expenses are refunds of amounts a trustee has needed to meet personally or which have been met on his or her behalf, in order to carry out trustee duties at the regional or local level. Claims for expenses have to be supported by bills or receipts from third parties. However, to avoid unnecessary administration, a per diem may be paid or part of the individual's travel costs paid directly to the Supplier and the remainder covered by a per diem. The aim should be to ensure that out-of-pocket expenses are met and that there is no element of profit.

Accounting

19. It shall be the responsibility of Regional Directors and the Executive Directors of member associations to:
 - (i) devise suitable systems and procedures to meet the general criteria set out above; and

- (ii) ensure that the nature and amounts of all payments and refunds of expenses to trustees are identified clearly in the relevant accounting records.

Ordinary Volunteers – Member Association Members

Payments

- 20. Normally any services provided to an association by its volunteer members should be free. However, on an exceptional and occasional basis, if ordinary volunteers, who are not members of the member association's Governing Body, render specialized professional services then an appropriate payment may be made.
- 21. Examples of such payments are:
 - (i) occasional sessional clinic fees for providing services;
 - (ii) one-off fees for preparing and delivering a lecture;
 - (iii) one-off fees for preparing or editing educational or information material.

Expenses

- 22. Expenses are refunds of amounts a volunteer has needed to meet personally or which have been met on his or her behalf, in order to carry out his or her duties within or on behalf of the member association. Claims for expenses have to be supported by bills or receipts from third parties. However, to avoid unnecessary administration a per diem may be paid or part of the individual's travel costs paid directly to the supplier and the remainder covered by a per diem. The aim should be to ensure that out-of-pocket expenses are met and that there is no element of profit.

Loans

- 23. Loans shall not be made to ordinary volunteer members from member association funds.

Accounting

- 24. It shall be the responsibility of the Executive Directors of member associations to:
 - (i) devise suitable systems and procedures to meet the general criteria set out above; and
 - (ii) ensure that the nature and amounts of all payments and refunds of expenses to non-trustee volunteers are identified clearly in the relevant accounting records.

Expenses of IPPF Honorary Officers

25. IPPF recognises that its Honorary Officers at Central and Regional level may incur personal expenses in connection with performing their official duties on behalf of the Federation.
26. This policy shall apply to the following:
 - (i) the IPPF President;
 - (ii) the IPPF Treasurer;
 - (iii) Regional Honorary Officers.

Expenses

27. Examples of the type of expenses are:
 - (i) travel and appropriate meal allowances;
 - (ii) identifiable secretarial or administrative assistance over and above that supplied by an IPPF office or by the member association of which the Honorary Officer is a member;
 - (iii) postage, fax and courier costs;
 - (iv) telephone calls.

Accounting

28. Where allowable expenses are incurred on IPPF business their actual cost will be refunded by IPPF on the production of relevant accounting statements, receipts or other vouchers from third parties.
29. It shall be the responsibility of the Director-General to ensure that suitable systems and procedures exist within the Central and Regional Offices to identify all such payments and to record them in their accounting records. Due account shall be taken of the accounting and reporting requirements of the Charity Commission for England and Wales.

Adopted by Central Council, November 1990. Last amended by Central Council, May 2002.

3. Member Association Building Loans

Policy No. 3.11

The Director-General has the power in consultation with the Governing Council to consider and approve buildings loans by IPPF to member associations to the extent necessary in exceptional circumstances.

Commercial loans or loans from IPPF obtained by a member association for the purpose of acquiring land or buildings shall be governed by guidelines laid down from time to time by the Governing Council and found in the Finance and External Audit Manual.

Adopted by Central Council, November 1990. Last amended by Governing Council, November 2000.

3.1 Explanatory Note

Member associations are encouraged to purchase their own building premises where this is economically prudent, ie. more advantageous than renting.

3.2 Establishment of a Building Fund

As detailed in point 4 below, Associations choosing to acquire a building may allocate part of their gross unrestricted local income to a Building Fund.

Also, where an Association has undertaken a special fundraising drive aimed specifically at generating funds for a building acquisition, then the net proceeds of this (which are, in effect, donor earmarked funds) may be credited to their Building Fund.

In addition to this, in the event that a government or other donor makes a contribution to an Association specifically for the acquisition of a building then this also should be credited to a Building Fund.

3.3 Qualifying buildings

To qualify for IPPF support, whether by loan or rent substitution, an Association should be able to demonstrate that the buildings to be acquired meet with their immediate and longer term needs and are of a standard commensurate with the Association's charitable status.

3.4 Permissible acquisition cost

The total capital cost of buildings acquired should not exceed ten times the current market annual rental of the building.

3.5 IPPF Building Loans

Before applying to IPPF for a loan, Associations should use their best efforts to secure the financing of the building acquisition from other sources.

The conditions set out below will apply to IPPF Building Loans

1. Interest will be levied on the following basis:
 - a) first year or part thereof - on the whole amount of the loan;
 - b) second and subsequent years - on the capital amount outstanding at 1st January of each year.
2. The rate of interest so levied will be the same as the best interest that IPPF would have earned by placing monies on deposit with its bankers either in London or New York, at the time the loan was made.
3. All loans and interest thereon will be recovered within a period not exceeding ten years.

3.6 Loan financing

Capital repayments and interest up to a maximum of $\frac{1}{10}$ th of the original loan obtained from IPPF and/or other sources may be charged to the annual Programme Budget as a rent substitution over the repayment period of the loan(s).

If annual repayments exceed this amount then Associations should elect to utilize the appropriate amounts of local income allowable to be transferred to Reserve Funds under IPPF policy (see 4 below) for this purpose.

4. Member Association Reserves and Local Resource Development

- 4.1 The policy set out below became effective from 1 January 1999 and applies to reserves created after that date. It should be noted that the old policy continues to apply to reserves in existence before 1 January 1999.

Reserves and Local Resource Development

Associations are encouraged to establish reserves whenever prudent to assist in the management of differences of income, meeting legal requirements, and its future role in the country.

The implementation of the Programme Budget will always take precedence over the establishment or maintenance of any reserve.

Any changes in reserves, or establishment of funds for specific purposes would be presented in the Three Year Plan, and if endorsed by the Region, in the Programme Budget. The Regional Director, either solely, or in consultation with volunteers, as appropriate would have the authority to agree to the assignment of funds to a reserve.

Use of Local Income

For these purposes, the Association may use up part of their locally raised funds to build up reserves. Locally raised funds include national and local government contributions, revenue from the sale of contraceptives and other products, fees and charges for services, membership fees, unrestricted interest and dividends, revenue from fund raising activities and income from any other income generating activities. Excluded are funds received from external governments and organizations, or their local representatives.

Financial Handbook Policy No. 2.1

4.2 Procedural changes

The 1998 Central Council Meeting approved the following changes in financial procedures:

- The amount of locally generated income that may be transferred to Reserves for member associations in Categories C, T and O be raised to 75%;
- The amount of locally generated income that may be transferred to Reserves for member associations in Categories A and B be raised to 35%;
- That such funds should not exceed the average of the two preceding years expenditure.

4.3 Explanatory notes

- (a) This procedure enables Associations to put aside a proportion of local funds for future use.
- (b) Associations should produce balanced budgets, i.e., where annual income and expenditure are equal. If budgeted expenditure is exceeded or local income is less than estimated,

no local funds may be transferred into reserves until the resulting deficit has been met.

1. Associations receiving IPPF funding of US\$50,000 or less

As approved by the Governing Council of IPPF in May 2000:

To avoid audit fees absorbing a high proportion of income, Associations receiving IPPF funding² of US\$50,000 or less (or such other limit as may be set by IPPF from time to time) may not be subject to the full scope of external audit as set out in this manual.

However as an international voluntary body as set out in Section A, paragraph 1 there is a need for IPPF to ensure that grant receiving Associations and partner organizations prepare annual financial statements.

IPPF will accept a copy of the audited local statutory financial statements, as long as these provide basic Balance Sheet information and an analysis of Income and Expenditure.

² Unrestricted core funding

1. Introduction

The FACE assessment tool is a checklist of financial controls to be completed by the Member Association's External Auditors. The tests have been developed based on the prescribed audit checks that are formally identified within the approved IPPF Standards and Responsibilities for Membership, and are designed to provide assurance on whether the Member Association is in compliance with financial membership standards.

The FACE audit programme will generate an overall conclusion on whether the Association's financial control arrangements are adequate- this conclusion is evidence-based and set according to key performance criteria set out in the Key Lines of Enquiry tool (Annex E of this document).

The audit programme must be undertaken for all core grant receiving Member Associations receiving total (core and restricted) grants equal to or greater than US\$300,000 in 2010. The work will be undertaken once every three years for qualifying Associations, starting in 2011 (in respect of financial year 2010) and should be delivered by the Association's external auditors at the same time as the annual financial statements audit.

Every three years, starting in 2010, IPPF Regional Office staff must review Member Association income and identify the Associations at which the FACE programme must be undertaken over the subsequent three year cycle. Member Associations that qualify for the FACE audit in 2011 should be notified by IPPF Regional Office staff by 31 December 2010.

Where Member Associations receive FACE scores of 'inadequate' from their external auditors, the FACE programme will be undertaken annually until the control weaknesses have been addressed.

2. Financial Accreditation Standards identified for evaluation by external audit

The following approved IPPF standards for membership relate to financial controls and performance, and have been identified for audit:

Principle 5- Well Managed

- Standard 5.3- The Executive Director ensures that operational plans and budgets for funding agencies, including IPPF, are prepared in accordance with the guidelines laid down by each agency;
- Standard 5.4- The Executive Director ensures that there is an effective internal control system and that the necessary financial systems and procedures are in place to account for all income and expenditure and their intended use;

Principle 6- Financially healthy

- Standard 6.1- The Association has an appropriate control framework to protect its assets from loss of any kind arising from fraud, waste, extravagance, inefficient administration, poor value for money or other causes;
- Standard 6.2- The Association has appropriate regulations covering its financial affairs.
- Standard 6.3- The Association's financial accounting systems enable it to identify the costs of its operations and provide evidence of its solvency.
- Standard 6.4- The Association's accounts are audited annually by external auditors who shall have due regard to the requirements of IPPF and other funding agencies and are appointed by the Association's Governing Body.
- Standard 6.5- The Association ensures that the risks facing the continuity of its activities are identified, prioritised and appropriate action taken to manage them.
- Standard 6.6- The Association mobilises appropriate resources to support its annual programme of work and takes the necessary steps to ensure longer term financial sustainability.

3. FACE Methodology

The auditor will review and provide audit assurances around the controls in place on each of the above standards. The FACE tool designed by IPPF will then score the Association's arrangements based on the auditor assertions provided, as set out in Annex E, as either:

- 1- Below minimum financial control requirements for IPPF accreditation; or
- 2- Adequate financial controls are in place for IPPF accreditation.

The scoring methodology is cumulative, i.e. all of the level 2 assurances must be met for IPPF to issue an overall score of 2 for one standard. Where the auditor considers that the evidence does not support all of the audit assurances identified by IPPF, the overall score for that standard will be fixed at level 1, or inadequate. Based on the auditor assurances IPPF will issue an individual score for each standard. IPPF will also issue a cumulative overall score. This means that if a score of 1 is issued for any individual standard, an overall score of 1 will be achieved.

This approach has been approved on the basis that the level 2 requirements represent the critical financial control requirements that IPPF would expect all Member Associations to have in place as a minimum, and therefore that a shortfall in just one of these areas represents a significant overall weakness in the control environment.

4. Outcome of Process

The individual and overall scores for all qualifying Member Associations will be reported to the IPPF Regional Office accreditation and finance teams, who will moderate scores to ensure reasonableness and consistency.

Where a score of level 1 (inadequate) is achieved, a formal action plan must be agreed

FINANCIAL ACCREDITATION CONTROL EVALUATION (FACE) SECTION K

between the Member Association and the external auditors, and approved by the IPPF Regional Director.

Please ensure that you consult the relevant Regional Office to obtain the most up-to-date list of approved international auditing firms.

**CHECKLIST FOR ACTIONS TAKEN PRIOR TO SIGNING
THE 20XX AUDITED FINANCIAL STATEMENTS**

1. Has the External Auditor been chosen from the internationally recognized list of Auditors recommended by the IPPF External Audit Manual (EAM)?

YES	NO	
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2. If not from the list recommended by the EAM, does the MA have authorization from the Regional Director or his/her delegated authority to use other External Auditors?

YES	NO	
-----	----	--

3. Was the decision to appoint the External Auditors taken by the appropriate volunteer body?

YES	NO	
-----	----	--

4. Was the Auditors' appointment in line with the content of the model letter of engagement suggested in the IPPF EAM?

YES	NO	
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5. Has an engagement letter been agreed with external auditors in respect of the Financial Accreditation Control Evaluation (FACE) audit programme (where the audit is required, as notified by the IPPF Regional Office)?

YES	NO	
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6. Did the Volunteers discuss the scope of the audit work with the External Auditors prior to starting the audit exercise?

YES	NO	
-----	----	--

7. Did the External Auditors brief volunteers on their work and findings prior to having the financial statements signed?

YES	NO	
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8. Is the opinion in the Auditors Report unqualified?

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YES	NO	
-----	----	--

9. Is the Auditor's Report signed and on the Auditor's letterhead?

YES	NO	
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10. Are all restricted and unrestricted income and expenditure included in the accounts?

YES	NO	
-----	----	--

11. Are IPPF grants properly included and in line with the IPPF confirmation?

YES	NO	
-----	----	--

12. Are the financial statements presented in the standard IPPF format?

YES	NO	
-----	----	--

13. Do the Financial Statements include a Statement of Internal Control in the standard IPPF format, signed off by the Association's Executive Director?

YES	NO	
-----	----	--

14. Are all restricted or designated fund balances approved by the donor?

YES	NO	
-----	----	--

15. Does the External Audit Financial Accreditation Control Evaluation (FACE) score '2 (ADEQUATE)' (where the FACE audit is required, as notified by the IPPF Regional Office)?

YES	NO	
-----	----	--

16. Does the Audit package sent to the Regional and Central Office include:
a. Audited Financial Statements & Auditor's report?

YES	NO	
-----	----	--

b. Reconciliation of MA's Annual Report to the Audited Accounts?

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YES	NO	
-----	----	--

c. Internal Control report or Management Letter?

YES	NO	
-----	----	--

d. A signed copy of this Checklist of Actions taken by the appropriate volunteer body?

YES	NO	
-----	----	--

e. A copy of the Financial Accreditation Control Evaluation (FACE) tool completed and supported by a signed covering letter from the External Auditors (where the FACE audit is required, as notified by the IPPF Regional Office)?

YES	NO	
-----	----	--

17. Does the Internal Control Report (ICR) or Management Letter include:

a. Status of implementation of previous year's recommendations?

YES	NO	
-----	----	--

b. The Member Association's management comments for each ICR recommendation?

YES	NO	
-----	----	--

c. The outcome of the Financial Accreditation Control Evaluation audit programme and an action plan to address any issues of non compliance (where the FACE audit is required, as notified by the IPPF Regional Office)?

YES	NO	
-----	----	--

18. Has the Audit package been prepared in time to meet the required deadline as per the IPPF EAM requirements?

YES	NO	
-----	----	--

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19. Are you personally satisfied with the year-end process and that the External Auditors have covered all required items?

YES	NO	
-----	----	--

MEMBER ASSOCIATION OF:.....

NAME:.....(President/ Chairperson)

Signature:.....

Date:.....

NAME:.....(Executive Director)

Signature.....

Date:.....

FIXED ASSET DEFINITIONS

The following terms are used in this Manual with the meanings specified:

FIXED ASSETS are property, plant and equipment that:

- Are held by the Member Association for use in the production or supply of goods or services, for rental to others or for administrative purposes; and
- Are expected to be used during more than one financial year.

DEPRECIATION is the systematic allocation of the depreciable amount of a fixed asset over its useful life.

DEPRECIABLE AMOUNT is the cost of a fixed asset, or other amount substituted for cost in the financial statement, less its residual value.

USEFUL LIFE is either:

- The period of time over which a fixed asset is expected to be used by the Member Association; or
- The number of production or similar units expected to be obtained from the fixed asset by the Member Association.

PROFORMA: STATEMENT ON INTERNAL CONTROL 2009

ORGANISATION NAME

Key: Normal script: wording to be incorporated as set out
Italic script: Indicates the need for an amendment or for a short commentary or explanation of the actual processes in place in the organisation.

1. Scope of responsibility

In line with point 5 of the IPPF Code of Good Governance, the *Governing Body* [*amend to correct title as necessary*] provides effective oversight of the organisation's financial health. As Accountable Officer, and *Executive Director* [*amend to correct title as necessary*], I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the donor funds and the organisation's assets.

2. The control framework

Describe the key elements of the internal control environment in place at the Association, to include a summary of:

- *The financial regulations, policies and procedures;*
- *The management and governance structure of the Association;*
- *Management information arrangements that allow the Governing Body and management to monitor the performance of the Association;*
- *Risk management arrangements; and*
- *Internal audit arrangements*

3. Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways.

[Detail major sources of assurance on which reliance has been placed during the year - to include:

- *the external auditors*
- *Internal audit (if applicable)*
- *work undertaken by other audit bodies*
- *Outcome of donor reviews*
- *IPPF accreditation reviews, IPPF technical assistance undertaken etc*
- *Role of Governing Body/ Audit Committee/ Other relevant committees*
- *Executive managers*

[Delete if not applicable] The following significant control issues have been identified during 2009:

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- *Include any significant control issues or qualifications in opinion reported by external audit*
- *Include any issues identified during FACE audit review*
- *Include any current non compliance with IPPF standards identified by an accreditation review*
- *Include any unplanned financial deficit or any indebtedness reported in financial statements*

Include an outline of the actions taken, or proposed, to deal with any significant internal control issues identified above.

Except for the control issues detailed above [delete if no significant control issues reported]

The system of internal control has been in place in *[organisation name]* for the year ended 31 December 2009 and up to the date of approval of the annual report and accounts.

Signed:

.....

Executive Director, XXX Family Planning Association