



Dear SI IAC, please note that Exco's comments under the headline RECOMMENDED CHANGES TO FINANCIAL OPERATING PROCEDURES AND PRACTICES appear with *bold black italic letters*. Please also remark that some SI IAC comments appear in **bold letters**.

Best regards

Jonny

Rasbokil, Uppland

Sweden

2017-08-26

SERVAS INTERNATIONAL -INTERNAL AUDIT REPORT FOR THE PERIOD TWELVE MONTHS ENDED MARCH 31, 2017

The Servas International - Internal Audit Committee which was elected at SICOGA in October 2015 as “the Audit Committee”, in terms of Financial Operating Procedures (FOPs) 3.1 to 3.35 has made a review of the 2016/17 Financial Statements and Notes as listed below. These Statements were to be prepared by the Treasurers and Bookkeeper on behalf of EXCO in accordance with the Servas International Statutes (2012) the Servas International Financial Operating Procedures (FOPs), Swiss Accounting Regulations and Generally Accepted International Accounting Policies (GAAP).

The Internal Audit Committee having completed its third Internal Audit in the past 21 months, now has a much better understanding of the financial procedures and governance of Servas International. Servas International Member countries, to which the Internal Audit Committee is required to report, at the SICOGA or by Distant Vote, have expected the Committee to give an independent report on the financial status of the organisation.

The Internal Audit Committee has reviewed the following documents:

- A. Servas International - Income and Expenditure Statement for the twelve months ended March 31 2017
- B. Servas International - Balance Sheet as at March 31, 2017
- C. Servas International - Supporting Schedules and details to the accounts – Schedule 1-10
- D. Servas International – Significant Accounting Policies and Notes forming part of the accounts for the twelve months ended March 31, 2017. Schedule 11.
- E. Servas International – Budget V Actual for 2016-17

RECOMMENDED CHANGES TO THE FINANCIAL STATEMENTS

The Servas International Internal Audit Committee found that the transactions shown in the above statements have been true and fair in representing the financial transactions of the organisation with the following qualifications:

1. Disclosure of a Capital Commitment – On April 1, 2017 Kevin Gautreau and the SOL Committee confirmed the ongoing SOL contract by signing Work Order #6 for EUR10530 or CHF11274 for estimated work, based on estimated hours, to be done in the period April 1, 2017 to Sep 30, 2017. Under International Accounting Standards any material commitment made after year end close, but before the Financial Statements are completed, needs to be included and disclosed in the notes to these statements under Schedule 11 D 4 A 2)

EXCO and the treasurer apparently do not agree with this International Accounting Standard regarding disclosure. We also note the external auditors comment “Disclosure of future Capital Commitments made by the SOL Committee and any material changes which have occurred between the end of the financial year and date of the report can find a place in the Annual Report to be submitted to by EXCO to the members of Servas International.

It is with grave concern that, in our opinion if the notes to the accounts do not include reference to the on going SOL contract commitment of capital expenditure post the balance sheet date (dated 1st April 2017) then International Accounting Standard Number 1 will not be complied with. This could mislead readers of the financial statements and contravenes the “full disclosure” and conservatism principles inherent in Swiss Accounting Standards.

We firmly believe, as confirmed by the note from the External Auditor, that Servas Member Organisations, members of Servas International, should be made fully aware of the financial situation and future commitments of the organisation

2.SOL- Capital Reserve -Transfer of Funds

There was a Capital Reserve set up when the SOL Levy (now called the Servas Online Project) was first invoiced / collected by transferring from the Corpus Fund of CHF39,819 (CHF42,675 less the write offs CHF2,856.) At the 2012 GA a further CHF30,000 was approved in the 2013 Budget as a Servas Online Project Budget amount to be financed from the SI Reserves. This resolution which was reported by the SOL Committee in their financial statements has not been reflected in the Financial Statements.

The Internal Audit Committee noted that a total of CHF64,094 had been spent to March 31, 2017 with a further commitment of CHF11275 making a total of CHF75,369. It therefore recommended that a further transfer from SI Reserves of CHF10,000 making a total of CHF79,819.

ADVICE FROM EXCO:

1. The General Secretary advised: “All of the numbers are clear. I see nothing for SI Exco to do or clarify. Since the IAC, William and the bookkeeper are the financial people, I trust that among you, you will be able to insert the numbers in the correct places in the accounting framework.”
2. The Treasurer advised: “We will go as per the IAC recommendations.” (Transfer CHF40,000)
3. The External Auditor advised: “Approval of the Members of Servas International is required for transfer of funds General Reserve (Corpus Fund) to SOL Special Projects Pool.” We cannot find anything in the Servas International Statutes or Financial Operating Procedures to support this statement.

RECOMMENDED CHANGES TO FINANCIAL OPERATING PROCEDURES AND PRACTICES

1. Year End Review, Write-Off Procedures

Each year after all the entries have been completed, the treasurer and EXCO need to the review these preliminary reports and recommend write-offs and any other year end adjustments where required. The current policy, although not part of the Financial Operating Procedures, seems to be to close off the books, prepare the Financial Statements, and when the Internal Audit Committee raises an item, get EXCO to approve the write-off. If this proposed procedure was followed this year it would have saved a lot of time at the year end close off for the Bookkeeper, the Treasurer and the Internal Audit Committee.

Exco agrees.

Expected implementation date: January 2018

2017-08-26

2. Schedule 5 B - Interest CHF Savings Accounts CHF25

Servas International have now invested CHF251,242 in the savings account (as well as CHF161,125 in the business accounts) and earned CHF25 in interest for the year. Interest appears to be very low in Switzerland at around 0.01%. SI should first ask Credit Suisse what is the best they can do. Or maybe one of the larger Servas national member organisations could invest on SI behalf and of at least 1% which could earn around CHF2,500 per year. This item was also included in the 2014 and 2015/16 Internal Audit Reports.

Exco agrees.

Expected implementation date: January 2018

2017-08-26

3 Schedule 11 -D2 / D5 - Capital Work in Progress – Meeting Costs 2010 -2012 CHF6891

These costs have been carried as work in progress and carried forward each year as an asset in the balance sheet. We are now moving forward to the new SOL Project and Software with Oonops Netapps now completed and Kevin Gautreau cleaning up the “bugs” in the program and also doing other enhancements.

The Internal Audit Committee cannot see any residual asset value in these meeting costs. They should have been expensed in 2014 and have been carried over again in 2015 /16 and 2016/ 2017.

Exco disagrees.

Note: Exco has been strongly advised by the former treasurer (LVS) who left his position at the beginning of 2017 that these costs are part of the cost of the ServasOnline project, and so should be part of the amortization process for ServasOnline once it is implemented. SI IAC needs to explain their big picture of the ServasOnline amortization process once it is declared to be implemented, and why SI IAC disagree with LVS' approach and want them treated separately. Then SI Exco will understand what is meant by this recommendation.

2017-08-26

4. Servas International Registration / Not Incorporated

We note that the SICOGA 2015 gave EXCO further instructions and a budget to follow up quickly and come back with a firm recommendation before the next GA in 2018. We understand that the President has now found an appropriate law firm to handle this in Switzerland. *We note again for the 2016/17 year that Servas International remains unincorporated and this exposes EXCO and Officers to personal liability.*

Exco agrees.

Expected implementation date: 2018

2017-08-26

5. Public Liability Insurance and Directors and Officers Insurance

We understand Servas has had a Public Liability Insurance to cover only some conferences and events. (Refer also FOP2.7 for Liability Insurance for conferences and events.)

EXCO agreed last year to obtain this continuous Public Liability cover and to have a written procedure for this.

We note again that for the 2016/17 financial year Servas International and its officers continue to be exposed financially.

The risk potential for an injury or sexual harassment claim is likely to be in the vicinity of CHF50,000 with up to CHF20,000 on legal costs defending a false claim. The Internal Audit Committee are very concerned that EXCO could be exposed to personal liability as it has apparently ignored the advice given in this and previous reports.

Exco agrees and is exploring the possibility to sign a public liability insurance.

Expected implementation date: 2018

2017-08-26

6. Transaction Registers

We have noted that when the 2016/17 General Ledgers were updated the transaction numbers for journal entries changed again in several instances Once an entry is posted to the ledger the details including the transaction number should remain the same. We were advised last year the Tally Program could be changed from the default mode to fix this problem.

Exco agrees.

Expected implementation date: 2018

2017-08-26

7. Financial Advice from the External Auditor

Copies of any financial advice given by the external auditor to the Treasurer or to Exco should also be given to the Internal Audit Committee. We have emailed the external auditor to see if he has any issues or concerns he would like to share with us. We are awaiting a reply. On the same basis the Internal Audit Committee will copy the External Auditor on the Internal Audit Committee Report it gives to the Treasurer and EXCO. We are awaiting the External Auditors final report on the Financial Statements, but this will come after the Internal Audit Committee Report is submitted.

Please forward copies of any letters or emails received by Servas International from the External Auditor regarding the 2016/17 Financial Year.

Exco agrees.

Note: The SI General Secretary is not able to find any correspondence in her files from the External Auditor for the 2016/17 Financial Year.

Expected implementation date: October 2017

2017-08-26

8. Asset- Tax Deducted at Source from Interest CHF2055.08

This includes amounts dating back to 2004 deducted by Credit Suisse from interest earned. It is shown as an asset (prepayment) in the Balance Sheet. We understand the only way to recover this money is to file Income Tax returns each year from 2004. It seems very doubtful that all this money will be recovered. There is also no mention of penalties for late filing of Tax returns. (See also Note 4 above). The value of this asset in the Balance Sheet must be questioned. This matter was also raised in the 2015/16 Internal Audit Report.

Exco agrees. Exco will discuss the matter as well as a possible solution with a relevant external professional.

Expected implementation date: 2018

2017-08-26

9. Treasurer's Quarterly Financial Reports to EXCO

There has been some discussion about the Treasurer preparing a Quarterly Financial Statement consisting of bank balances to the end of the previous month and payments made since the last report. There appears to be nothing in his reports attached to the EXCO minutes we have been given. The Internal Audit Committee considers it important that EXCO, as a governance issue, are made aware of the current financial status of the organisation, and not just by the Annual Financial Statements. Although the Annual Financial Statements are now up to date, the balances available to EXCO are 4 months out of date. (Refer FOP 2.1 Financial Duties - "SI EXCO is responsible for the day to day running of Servas International."). This matter was also raised in the 2015/16 Internal Audit Report. We are awaiting "the new treasurer to confirm the date" when this will be started. Failure to act on this could be construed as bad governance.

Exco agrees. Exco will explore the possibility to improve the situation.

Expected implementation date: 2018

2017-08-26

10. Treasurer Quarterly Reporting -Stamp Receivables to EXCO

The Treasurer should be seeking the assistance of EXCO to help the Treasurer contact Servas Member countries with stamp monies overdue. This also ensures there are no surprises regarding Distant Voting Entitlements. To keep EXCO informed the Treasurer also needs to submit a quarterly report on Stamp Receivables, with comments showing any action taken to collect the overdue amounts.

Exco agrees.

Expected implementation date: 2018

2017-08-26

11. Job Description - Treasurer 2006- EGA Decisions 2.

The Job Description for Treasurer states “If the Servas International Treasurer or EXCO believe that the Treasurer cannot meet his / her commitments a member of the (Internal) Audit Committee WILL take over the role and step down from the (Internal) Audit Committee for that year.”

This regulation is clearly unenforceable and would be better to read “.....the Deputy Treasurer WILL BE ENCOURAGED take over the role and step down from the position of deputy Treasurer for that year.”

This matter was also raised in the 2015/16 Internal Audit Report.

LVS 2016: “EXCO will evaluate the requirement of Deputy Treasurer and accordingly make the necessary process for appointment. EXCO will respond to this after checking with the new treasurer as to when this position can be filled.”

Exco disagrees.

Note: SI Exco has no right to change a General Assembly decision. An SI Exco motion to make the suggested change is planned for the 2018 GA.

Expected implementation date: 2018

2017-08-26

12. Appointment of Assistant Treasurer

EXCO has agreed that an Assistant Treasurer should be appointed ASAP. Some of the candidates who applied for the Treasurer’s position would be eminently suitable for this role. This matter was also raised in the 2015/16 Internal Audit Report.

We strongly recommend immediate action to find as Assistant Treasurer.

Exco agrees. The action is ongoing. Efforts to find a suitable person are so far unsuccessful but are continuing.

Expected implementation date: 2018

2017-08-26

13. Distant Vote - Nov 2016 – Voting Rights Withheld – Write Off Procedures

Under the Servas International Statute (2012), Rule II 2) states “The obligations of a Servas International member country consist of and are limited to: **paying fees**, doing annual host list updates, submitting annual reports and of following regulations and procedures as decided by the General Assembly according to Section IV 3f of the Statutes.”

Servas International Statute (2012) Rule VI 3) states “Only delegates from member groups which **have met all their financial obligations** to Servas International within six months of the due date are allowed to vote. There appears to be no clear procedure or policy to **advise how long a member country is denied voting rights after a debt is written off as uncollectable**, (as opposed to a disputed account.)

Also, the Servas International Statute Rule VI 3) needs reviewing as there is no scope for EXCO or GA discretion to waive or write off these fees in special circumstances.

Exco agrees.

Note: SI IAC's recommended changes to the FOP and statutes will be included in motions presented by SI Exco for the 2018 GA.

Expected implementation date: 2018

2017-08-26

14. Servas International Website – Unsubstantiated Statistics

These 2 statistics are quoted on the website in several places. “There are 15,000 households in over 100 countries.” IAC has been advised there were 77 countries approved to vote by SICOGA 2015.

On the map of the world on the SI Website showing host numbers for each continent the hosts add to 13970. By extracting the latest data from the Dolphin site the total is just over 12,000.

Exco agrees.

Note: In the first paragraph, IAC is confusing ‘member groups’ and national groups’. SI is present in over 100 countries, but only 77 meet the conditions to be Member Groups. In the second paragraph, it must be

***understood that it is impossible to know the number of hosts at this time, since SI is in the process of transitioning from 'households' to 'individual' members and also from individual host lists to ServasOnline. Expected implementation date for editorial change to more suitable wordings, to present current numbers of hosts and/or individual members: September 2017
Expected implementation date for exact number of hosts and/or individual members: 2018 when the transition to ServasOnline is completed
2017-08-26***

15. Expense Claims – Not Approved

The Internal Audit Committee has noted the Expense Claims for the year March 31, 2017 year do not appear to be approved. It would be sound financial reporting if the president approved the other EXCO members' expense claims prior to them being paid by the treasurer.

Exco agrees.

***Expected implementation date: 2018
2017-08-26***

16. Expense Claims Submitted at least every 6 months

Expense claims from EXCO members should be submitted to the treasurer at least every 6 months. This means the expense is relatively recent for the claimant and it means less work for the treasurer at the end of the year.

Exco agrees.

***Expected implementation date: 2018
2017-08-26***

17. Official Financial Year End Closeout Timetable

The Treasurer in conjunction with the General Secretary should publish the Official Financial Year end Closeout Timetable starting with final dates for receiving Stamp Money, Stamp Returns, expense claims and supplier invoices, through to reviewing the preliminary financial statements before sending to the IAC, to completing the Internal Audit, and ending with the distant voting papers.

Exco agrees.

***Expected implementation date: 2018
2017-08-26***

18. Servas International Official Letterhead

It would look a lot more professional if letters to the United Nations Agencies, Banks and other peace organisations were on an official letterhead. (We note that Servas International now has proper visiting business cards). The letterhead should have the Servas International and the logo as well as the name and address of the EXCO member or the committee.

Exco agrees.

Note: Exco agrees that the existing Servas logo should be used whenever possible in communications as described above. But Exco will not print business stationary with the Servas logo, since most communications are handled via email and other electronic channels. Printed letters could be sent from anywhere in the world and so it is impractical to physically print business stationary).

2017-08-26

19. EXCO Draft Minutes

We are pleased that EXCO has agreed to send us a copy of the draft minutes affecting “the financial decisions” soon after each meeting. However the Internal Audit Committee is concerned that the full draft minutes are not available to the Committee until they are confirmed at the next EXCO meeting. In two recent instances this was nearly 2 months after the meeting.

Exco disagrees.

Note: SI Exco finds the current arrangement to be sufficient.
2017-08-26

20. Financial Agreements signed by Servas International Officer

We note that copies of some financial agreements apparently signed by a Servas International Officer on behalf of Servas International have apparently not been given to the Treasurer. This makes it difficult for the treasurer to understand and authorise the payments to these suppliers. (In one instance it appears that no one on EXCO had a signed copy of the agreement. See extract SI Handbook below)

Exco agrees.

Note: SI Exco finds this is subject to common practice.

Expected implementation date: 2018

2017-08-26

APPENDIX B: Approved Contracts

- External Auditors – managed by Treasurer (in Statutes)
- If at any time there is no qualified Servas International Treasurer, then SI EXCO may hire and pay a temporary accountant – managed by Treasurer (decision GA 2006)
- If there is no qualified volunteer System Administrator, then SI EXCO may hire and pay one up to CHF1000 per year; managed by ICT (decision GA 2012)
- All business relations between Servas International and vendors or service providers shall be based on a written agreement approved by EXCO or by a committee authorized by EXCO to approve such agreements, if the value of the goods or services to be procured exceeds CHF 500 (decision GA 2012).

21. 2016 Annual Reports and Future Plans -EXCO Members and SI Committees

The Internal Audit Committee submitted this document in Mar 2017 but have yet to receive copies of the reports relating to EXCO and SI Committees. The Internal Audit Committee Plan included many of the matters raised here (See attached)

SI Exco note: The 2016 SI Annual Report is being compiled.

Expected publication date September 2017

2017-08-23

In Conclusion

We must thank again the treasurers for the sterling work they have done in getting these 2016/17 Financial Statements published promptly. During the last 21 months the Treasurers along with the Internal Audit Committee and EXCO have substantially revised the 3 year budget, updated the Financial Operating Procedures, collected or cleared over 90% of the value of the receivables owing for Stamps and now completed their third lot of Financial Statements and internal audit in just over 21 months. Our next aim is to get the fourth 2017/18 reports completed and audited well before the 2018 SICOGA in October.

The Internal Audit Committee recommends the Servas International President on behalf of the General Assembly and EXCO reviews all these matters at their next EXCO meeting. Under FOP2.6, EXCO will then make public the plan to implement the recommendations made by the Internal Audit Committee (and the External Auditor) and the date by which they will be implemented.

Signed Graham Robertson - Chair
Ashley Burrowes - Member
Emmanuel Kakinda – Member

Dated Aug 20, 2017