



INTERNAL AUDIT REPORT FOR SERVAS INTERNATIONAL **FOR THE PERIOD FIFTEEN MONTHS ENDED MARCH 31, 2016 –V10-FINAL**

The Servas International Internal Audit Committee elected at SIGA in October 2015 in terms of Financial Operating Procedures (FOPs) 3.1 to 3.35 has made a review of the 2015/16 Financial Statements and Notes as listed below. These Statements were to be prepared by the Treasurer on behalf of EXCO in accordance with Servas International Financial Operating Procedures (FOPs) and Generally Accepted Accounting Policies (GAAP).

The Internal Audit Committee has now completed their second Internal Audit in the past 12 months and is starting to understand the financial procedures of Servas International finances. EXCO and the Servas International members have expected the Internal Audit Committee to give an independent report on the financial status of the organisation as they see it.

The Internal Audit Committee has reviewed the following documents:

- A. Servas International - Income and Expenditure Statement for the fifteen months ended March 31 2016
- B. Servas International - Balance Sheet as at March 31, 2016
- C. Servas International - Supporting Schedules and details to the accounts – Schedule 1-9
- D. Servas International – Significant Accounting Policies and Notes forming part of the accounts for the fifteen months ended March 31, 2016. Schedule10.
- E. Servas International – Actual V Budget for 2015-16

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.

No qualifications - all recommended changes have been adopted.

RECOMMENDED CHANGES TO FINANCIAL OPERATING PROCEDURES

1. Year End Review, Write-Off Procedures

Each year after all the entries have been completed, the treasurer and EXCO needs to review these preliminary reports and recommend write-offs 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 for the NEXT YEAR'S Financial Statements. The Financial Statements results for 2013 were overstated by CHF32, 304 and the 2014 financial results were overstated by CHF15015. At this stage the 2015/16 results were overstated by CHF6, 298 (See notes below.) Generally Accepted Accounting Principles would recommend that it would be prudent for these losses that date back several years to be recognised in the Financial Statements as soon as possible and not continually pushed forward.Schedule10 5). Use of Estimates has not been applied. This policy seems to conflict with FOP2.23 e) iii.

LVS: This will be adhered as all the unused stamp returns have been adjusted.
This will be adhered to for the 2016/ 2017 Financial Year and beyond

2. Schedule 5 C - Interest CHF Savings Accounts CHF48

Servas International have now invested CHF251, 000 in the savings account and earned CHF47 in interest. 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 national organisations could invest on SI behalf and at least earn 1% which could be around CHF1800 per year. This was also included in the 2014 Internal Audit Report.

LVS: The response from Credit Suisse has not been encouraging but nevertheless all efforts to invest the monies in the savings bank account will be made

3. Schedule 10 D2 SOL Project Fund -Description

This Note states that “at the GA Argentina in 2009 it has been agreed to contribute to the Servas Online Project” This note is misleading as it implies that all Servas National Organisations agreed to Contribute. **The Internal Audit Committee has now been advised that only Servas National Organisations with over 100 members were asked to contribute for the years 2010, 2011 and 2012.**

The Treasurer and EXCO were not prepared to write off any of these receivable amounts owing in the 2014 financial Year.

In Nov 2016 EXCO has now approved the writing off of the SOL for a few Servas National organisations amounting to CHF4856 (which will not be processed until the 2016/17 financial year) while they insisted other Servas National Organisations pay amounting to CHF3,064. EXCO denied all people with SOL Levy owing a vote at the distant vote in Nov 2016. We note that two of the Servas National Group had “Ghosts Hosts” referred to under item 6 in our 2014 Internal Audit Report.

We note however there is a Provision for Doubtful Dues of CHF5000 at March 31, 2016

LVS: The outstanding SOL Fees will be cleared in the 2016/17 accounts. The NS of the concerned member countries having Ghost Hosts have validated the host list and eliminated the non-existing ones.

4 Schedule D2 / D5 - Capital Work in Progress – Meeting Costs 2010 -2012 CHF6680

These costs have been capitalised as work in progress and carried forward each year as an asset in the balance sheet. We are now moving forward to a new SOL Project and Software with Oonops and Kevin Gautreau.

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

LVS: All costs pertaining to SOL Project have been captured in Capital work in progress and the total will be capitalized once the SOL goes online which will be most probably within next month.

5. Servas International Registration / Not Incorporated

We note that the GAANZ gave EXCO further instructions and budget to follow up quickly and come back with a firm recommendation before the next GA in 2018. We note that the President has been searching to find an appropriate law firm, individual person or group to handle this in Switzerland. **We note again for the 2015/16 year that Servas International remains unincorporated and this exposes EXCO and Officers to personal liability.**

LVS: Progress on this has been made by the President and hopefully the process of registration will be completed shortly.

6. Public Liability Insurance and Directors and Officers Insurance

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

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

We continue to be very concerned that Servas International and its officers continue to be exposed financially.

LVS: EXCO will be ascertaining the risk potential and thereafter look out for comprehensive policy to cover all such potential risks.

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. Please advise if you disagree.

LVS since no such claims have been made till date of injury or sexual harassment claims it would be difficult to estimate the potential claim amount.

7. Transaction Registers

We have noted that when the 2014 General Ledgers were updated the transaction numbers for journal entries changed, e.g. JNL 42 for reallocation of a receipt between member countries changed to JNL 43 in a later version of the ledger. Once an entry is posted to the ledger the details including the transaction number should remain the same.

LVS: The Tally program has the flexibility to accommodate missed out vouchers. But for the suggested process, the program can be changed from the default mode to read no change in the vouchers take place.

8. 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 are concerned that a recent email sent to the External Auditor asking about any matters of concern was answered by the treasurer. On the same basis the Internal Audit Committee will copy the External Auditor on the Internal Audit Committee Report it gives to the Treasurer or 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.

LVS: This will be adhered to and copies of all correspondence will be made to the Internal Audit Committee. The changes have been incorporated as suggested by the IAC.

Please forward copies of any letters or emails received by Servas International from the External Auditor regarding the 2015/16 Financial Year.

LVS I have not received any mail from the external auditor Mr Vasudev Pai for the year 2015/2016. All copies of correspondence with Mr Pramod bookkeeper have been copied to IAC.

9. 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 in the Balance Sheet. We understand the only way to recover this money is to file 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.

LVS: The filing of tax returns can be made only after the registration process is completed and the refunds claimed.

The question of time limits for filing tax returns or penalties for late filing once Servas International is registered have not been answered. Thus the value of the asset in the Balance Sheet must be questioned.

LVS: The legal attorney advising on the SI Registration will be advising on the tax claim refund processing and the possibility of penalties if any for late filing.

10. 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 minutes. The Internal Audit Committee considers it important that EXCO are made aware of the current financial status of the organisation, and not just the Annual Financial Statements. Until recently have not been available for more than 12 months after the end of the

financial year. (Refer FOP 2.1 Financial Duties - “SI EXCO is responsible for the day to day running of Servas International.”)

LVS: Owing to the time taken for adjustment of prior years’ unused stamps returns in the accounts, the finalisation took considerable time and effort because of which the quarterly financial reports could not be adhered to. This will now become possible as all the past adjustments will get incorporated by 2016/17 accounts.

Please advise when it is expected that the first Treasurer’s quarterly report will be presented to EXCO

LVS: The new treasurer will confirm the date.

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.”

LVS: EXCO will evaluate the requirement of Deputy Treasurer and accordingly make the necessary process for appointment.

There is no undertaking to change the job description for Treasurer, which EXCO knows is unenforceable. EXCO have been talking since 2015 of the need to have an assistant treasurer. When does EXCO expect the evaluation to be completed?

LVS: EXCO will respond to this after checking with the new treasurer as to when this position can be filled

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.

LVS: response as in Point 12.

If EXCO is interested in the health of its officers you would think this appointment of an Assistant Treasurer would have some priority. EXCO have previously agreed this is too big a job for one person

LVS: EXCO will respond to this after checking with the new treasurer as to when this position can be filled

13. Distant Vote - Nov 2016 – Voting Rights Withheld

Under Servas International Statute 2012 Rule II 2) states “The obligations of a member group to Servas International 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.

At the 2015 General Assembly, based on a schedule handed out at the Finance Workshop by LV Subramanian regarding Stamp Fees and SOL Fees, Servas Member Groups from France, Italy, Australia, India, The Netherlands and many others with amounts owing for more than 6 months were not denied voting rights.

With the Distant Vote several countries with money owing on the SOL Fee were denied voting rights based on the same amounts owing at the GA in 2015.

Two weeks after the distant vote was taken EXCO approved the write off of the remaining SOL Fees not paid or promised for payment. It would have been more equitable for EXCO to have approved the write offs before the Nov 2016 Distant Vote.

We are very concerned at the inconsistent application of the Statute Rule VI 3).

This should be sorted out before the next Distant Vote in May 2017.

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

LVS: With all prior year adjustments completed by 2016/2017 accounts, the outstanding dues will reflect the current dues which will be duly followed up and distant voting rights to the deserving member countries as per statutes will be granted.

There is no undertaking regarding withholding voting rights the 2018 General Assembly (SIGA) for unfinancial member organisations per the statutes. This only covers distant votes.

LVS: With the completion of all prior year adjustments by 2016/2017 accounts, the outstanding receivables will reflect the current dues which will be followed up for payment and the payment default by the member countries will bar them from distant voting and voting at the 2018 General Assembly (SIGA).

In Conclusion

We must thank again the sterling work done by the treasurer in getting these 2015/16 Financial Statements published as well as taking over at the Oct 2015 General Assembly in very difficult circumstances. During the last 18 months the Treasurer 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 SOL and now completed their second lot of Financial Statement and internal audit in just under 12 months. Our aim is to get the 2016/17 reports completed and audited well before the year end.

The Internal Audit Committee recommends Servas International 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 February 16th, 2017