



SERVAS INTERNATIONAL EXECUTIVE COMMITTEE RESPONSE TO INTERNAL AUDIT REPORT FOR THE YEAR ENDED MARCH 31, 2021

SI EXCO response to the internal audit committee report is given in blue below.

Report of The Internal Audit Committee

Rick Wolfe (Convenor of IAC)
Phyllis Chinn (Member of IAC)
Gülşen Elyak (Member of IAC)

We received the following documents from the Treasurer on 10th June 2021 for the financial year ending 31st March 2021 for our review:

1. SI Draft BS, IE Statement
2. Schedule to Balance Sheet
- 3 Fixed Asset Schedule
4. Stamp Fees Receivable Schedule
5. Statement of Cash Flow
4. Budget vs Actual comparative statement.
5. Preliminary Draft SI Notes.

Based on the above, we have reviewed the financial statements and we find that these present a true and fair view of the transactions conducted during the year commencing on 1st April 2020 to 31st March 2021 vide the Income & Expenditure Account and also of the SI finances as reflected by the Balance Sheet as of 31st March 2021 subject to our following observations.

1. The IAC recognises that Servas Online (SOL) is critical to further the Servas goals. The maintenance allocations were approved at the GA despite the fact that Income and Expenditure statement reflected year-wise accumulated deficit. SI contracted external agencies at high costs for SOL maintenance owing to absence of in-house expertise. SOL has been operational for the past four years and the SOL maintenance expenses has grown from CHF 9,434 in FY17/18 to CHF 36,870 in FY18/19 to CHF 39,810 in 20/21 and CHF 9135 for the year under review. The proposed yearly budget for each the FY 19/20, 20/21 and 21/22 is CHF 72,450 which includes a new software upgrade. It is unclear why the budget is combined and whether the proposed budget is realistic. IAC suggests the budget schedule FRA-001 be revised to reflect the two types of expenses (maintenance and software upgrade) and the current status of this project.

SI EXCO Response: SI EXCO prefers to refer to the Servas International website and membership system simply as Servas.Org. Using "Servas Online" or "SOL" has caused some confusion for members. We believe that using Servas.Org will be clear and unambiguous. The work done by the technical teams on planning and maintaining the infrastructure and software used by Servas will hereafter be referred to as work done on Servas.Org. The

technical team does all of the following – build and maintain the Servas.Org website, the Servas Email Server, the Servas Nextcloud Server, the Servas Confluence Server, the Servas Jira Server, and the Servas membership support system.

SI EXCO recognizes that technology expenses are of two types – (a) expense on maintaining existing platforms and (b) expenses on building the next generation platform. The average life span of a software system is approximately 3 years. Every three to four years we need to build a new platform or do a complete refresh of the old platform. For example, both Dolphin and Servas Online Version 1 are already past their useful life though they will continue to exist till a new version of Servas.Org is implemented by early next year to replace them. SI EXCO agrees with the audit committee that the GA should have specified a maintenance budget separate from the capital (build) budget. Perhaps the GA wished to give the technology team flexibility on its spend and therefore did not separate the two. While there is a single combined budget for both types of expenses, we have been separating the costs incurred in our reporting. For example, in the current year, maintenance expenses were CHF 9,135 and the build expenses were CHF 16,848 – and this has been reported separately in the income statement, balance sheet, cash flow statement and the budget vs actuals statement.

SI EXCO plans to separate the maintenance budget from the build budget in future budgets. As an example, the SI EXCO presented a pro forma budget for one of the motions in the May 2021 distant vote, where it separated the amounts.

SI EXCO would like to add that the amount spent in the last three years is significantly less than budgeted. This was achievable because we have many in-house volunteers who do most of the work. Also, the external agencies have been working for us at significantly discounted rates. This has allowed us to keep costs low and spend significantly less than budget. SI EXCO does not believe that the cost of development has been very high.

2. The Stamp revenue of CHF 56,280 this year is consistent with previous years and the budget.

SI EXCO Response: No comment.

3. Due to the COVID 19 pandemic, travelling is restricted and yet has not impacted stamp revenue. The expenses for the year also reduced significantly. As the world comes out of the pandemic the IAC expects an increase in travel for 2021-22, as travellers will be eager to venture out. IAC suggests that a revised 3 year budget should be planned.

SI EXCO Response: Normally, there would be a GA this year in which a 3-year budget would be approved. Since the GA is postponed to next year (as per the Nov 2020 DV), SI EXCO feels that the preparation of a 3-year budget should be postponed to the next year when a GA will be held. For the year 2021-22, SI EXCO plans to extend the 2018-2021 budget by one more year (which is the normal tradition). However, based on IAC's suggestion, SI EXCO will consider preparing a fresh budget for the 2021-22 fiscal year.

4. The Development Fund Reserve has a current balance of CHF 32,811. The GA has set this reserve as a restricted fund. IAC looks forward to seeing how these funds will be spent.

SI EXCO Response: SI EXCO is not aware that the funds in the Development Fund Reserve have been restricted in any way. Traditionally, the development committee makes decisions on how to disburse any amounts from the Development Fund Reserve. But, as stated above, SI EXCO is not aware that there are any restrictions on how the committee can spend the money in the reserve fund.

5. The registration of SI remains incomplete despite SI EXCO having obtained legal consultation from the Swiss legal attorneys. This year, CHF 4,960 of the CHF 10,000 budget was spent. The very important registration seems to languish. Please give an updated status and projection for completion.

SI EXCO Response: During SI's fiscal period April 1 2020–March 31 2021, SI EXCO has – in cooperation with the board's Servas Switzerland liaison – continued the work to formally register in Switzerland as an international non-governmental organisation (iNGO) with a registration number.

SI EXCO received information from the Commercial Registry Office of the Canton of Zurich (Handelsregisteramt) that SI has the potential to be registered. SI EXCO was also informed by the tax authorities in Zurich that SI has potential to get tax exempt status.

At the beginning of 2021 the Commercial Registry Office of the Canton of Zurich informed SI EXCO that an approval of SI's application for formal registration requires amendments of the current SI Statutes (2018). Such amendments of the SI statutes need approval from a SI General Assembly (SI GA) and therefore SI EXCO made plans for an Extraordinary SI General Assembly (E-SIGA) to be conducted in August 2021. The proposal to have an E-SIGA 2021 in August 2021 was approved by the SI member groups by a SI Distant Vote in May 2021.

The SI member groups will through E-SIGA 2021 decide if they approve or disapprove of the amendments of the SI Statutes (2018) needed for the Swiss authorities' approval of SI EXCO's application for a formal registration in Switzerland.

If the member groups approve SI EXCO's E-SIGA 2021 motion to amend the SI Statutes (2018), the board's preliminary plan is to submit a formal application with the amended statutes as soon as possible during 2021.

The registration process has incurred costs for legal consultation, translations and miscellaneous items as follows:

Legal fees	3,956.50
Translation fees	<u>1,003.77</u>
Total	<u>4,960.27</u>

6. To date, there is no insurance policy in place for any liabilities that may occur for any actions made by SI. Please give an updated status on insurance.

SI EXCO Response: SI EXCO periodically approaches insurance brokers to review its insurance requirements. It had approached some brokers last year for a review. However, the process was halted due to the pandemic. SI EXCO plans to revive the process next year and will provide an update when it is available.

7. IAC notes that there is CHF 40,000 transferred to the GA Reserve for 2020-21. We also note a significant effort is needed to put on such a meeting. In fact, it takes at least two years to plan a successful GA once a host country is secured. IAC highly recommends postponing the event and working to establish the next GA site as soon as possible

SI EXCO Response: As per the Distant Vote motion that was passed last year, the next GA has been postponed to 2022. SI EXCO is aware of the effort required to plan a successful GA. We are still working on a site and will provide you with an update as soon as possible.

8. The IAC notes the budgeted SOL expenses for the next year again is CHF 72,450. This will reduce cash reserves. It is expected that the outlay of funds for the software upgrade will be depreciated and the related expense for this may be significant.

The non sustainable budget trend of expenditures for the coming years will further deplete the corpus funds.

SI EXCO Response: The budget for Servas.Org has been CHF 72,450 for each of the last three years. It should be noted that the general assembly voted to allow these expenses, and was comfortable with the notion of depleting cash reserves that would result from such expenditures. However, as noted elsewhere, SI has been able to do all the development work at a significantly lower cost. Moreover, as the IAC must be aware, a new funding plan proposed by the SI EXCO was approved this May. The funding plan ensures that resources will be adequate to meet any planned expenditure. SI EXCO believes that with these changes, the finances of Servas International will be quite healthy. SI EXCO stands by its stewardship of Servas finances.

Our recommendations:

- (a) Control all the expenses especially the SOL Maintenance costs with better contractual terms benefitting SI. Also evaluate in-house expertise so that the outside agency costs can be brought down.

SI EXCO Response: As noted above, this is already being done.

- (b) Contact an insurance broker to request quotes for protection of assets.

SI EXCO Response: As noted above, a review of the risks is being planned. It should be noted that we do not have many assets that require protection (only bank balances and software). But, we will be reviewing any risks we have that needs to be indemnified.

- (c) Develop new revenue streams like donations to SI subject to the conditions laid out in the Financial Operating Practices (FOP). This is possible after SI's formal registration.

SI EXCO Response: As noted above, with the new funding plan that was approved, SI's finances should be on a more stable footing.

- (d) Extend the GA from the 3 year gap to 4 years so that the incidence of additional deficit can be deferred.

SI EXCO Response: This is not an SI EXCO decision. As noted above, we had a distant vote to postpone the GA to 2022, which passed.

- (e) Continue and complete the SI registration on timely basis so that the benefits of registration will accrue to SI. The formal registration of SI will permit it (a) to move bank accounts to ethical banking institutions offering higher rates of interest on deposit account, lower bank remittance charges and other banking privileges, (b) may claim refund of income tax deducted from interest income (c) seek donations and financial help from core agencies like UN and other support groups. It is therefore imperative that SI registration is to be taken with utmost urgency as considerable delay has already occurred.

SI EXCO Response: As noted above, it is being done as expeditiously as possible. SI EXCO is aware of the benefits of registration.

We are confident that the above measures go towards stabilizing the SI finances.

We appreciate responses from the SI EXCO to our observations.

Respectively Submitted

Internal Audit Committee