



INTERNAL AUDIT REPORT FOR SERVAS INTERNATIONAL FOR THE YEAR ENDED DECEMBER 31, 2014

The Servas International Internal Audit Committee elected at GANZ in October 2015 in terms of Financial Operating Procedures (FOPs) 3.1 to 3.35 has made a review of the 2014 Financial Statements and Notes as listed below. These Statements were to be prepared in accordance with Servas International Financial Operating Procedures (FOPs) and Generally Accepted Accounting Policies (GAAP). These 2014 Financial Statements were prepared by the Incoming International Treasurer, L V Subramanian, on behalf of the Outgoing International Treasurer Mirek Wasilewski. We sincerely thank LV for taking on this substantial extra responsibility.

The incoming treasurer L V Subramanian was on the outgoing Internal Audit Committee. Exco then requested the incoming Internal Audit Committee to conduct the 2014 Internal Audit. The Internal Audit Committee had very little experience of Servas International finances, had to ask many questions and was on a steep learning curve to get up to speed in a very short time. In spite of these difficult circumstances Exco and the members still expected the Internal Audit Committee to 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 year ended December 31, 2014
- B. Servas International - Balance Sheet as at December 31, 2014
- C. Servas International - Supporting Schedules and details to the accounts
- D. Servas International – Significant Accounting Policies and Notes forming part of the accounts for the year ended December 31, 2014.
- E. Servas International – External Auditors undated Report by T. Vasdudev Pai dated April 28, 2016

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. Schedule 9 C14. Review by the Audit Committee

This states “... the said statements reflect true and fair activities of the organisation...”

We understand Exco approved the 2014 Financial Statements at its April face to face meeting in France and subsequently obtained the External Auditors final report without waiting for the final Internal Audit Report we are now presenting. This omission is considered serious and needs to be rectified in future years. We, the Internal Audit Committee did not sanction this statement to be made on our behalf.

EXCO Response: This will be adhered to in future.

2. Schedule 9 C14. Law Suits Pending

This states “... the Audit Committee ... and there was no law suit pending in favour of or against the Organisation as at Dec 31, 2014.” Exco has not advised the Internal Audit Committee of any Law Suits pending. We, the Internal Audit Committee did not sanction this statement to be made on our behalf.

EXCO Response: There is no law-suits pending.

3. Schedule 9 C14. Commitments and Contingencies

There is no mention in this paragraph about commitments and contingencies apart from lawsuits pending.

1. Open Commitments

We are aware of an Open Commitment on the Oonops Agreement amounting to EUR8088 paid in Feb 2015. We are not sure if the work was completed before or after Dec 31, 2014 at this stage. It should have been either noted as an accrued expense omitted from the Financial Statement notes or an Open Commitment under the Oonops Agreement.

2. Contingent Liability / Certificate of Technical Completion

We know the final payment has been made under the Oonops Agreement in Feb 2015. We have not seen a Certificate of Technical Completion for this work so can see a contingent liability if our new contractor, Kevin Gautreau, following his audit, has to complete work already covered by scope of work in the Oonops Agreement.

EXCO Response: This will be adhered to in the future.

4. Stamp Income – Comparative Amounts for 2013

The stamp fees received (net) comparative amount for 2013 shown in the Income and Expenditure Statement for 2013 as CHF89465 does not allow for return of unused 2013 stamps in early 2014 of CHF25667 and therefore **the true comparative amount should be CHF63798 to match against the actual of CHF58503 for 2014. We note this amount is included in Prior Period Expenses but it is not an expense, it is really a reduction of income.**

EXCO Response: Since it is not possible to modify audited and signed accounts, any adjustments pertaining to previous year is shown as relating to Prior Period Expenses to distinguish it from the current year expenses. It is shown below the Surplus for the year.

5. SOL Project Fund -Description - Note D2

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 Servas International President has agreed to send a personal letter to all Servas National organisations with SOL contributions owing at March 31, 2016 explaining again the purpose and importance of the SOL project and requesting again that contributions outstanding be now considered and paid. EXCO will need to set a time limit on these responses before writing them off.**

We note however there is a Provision for Doubtful Dues of CHF5000

EXCO Response: SERVAS Online fees is not a voluntary contribution but a mandatory payment for member countries having more than 100 hosts, whereby they pay CHF 1 per host towards the SERVAS Online project. Some countries are yet to pay and payment reminders to these member groups will be sent.

6. SOL Receivables Schedule 5 d) “Ghost Hosts”

The total amount of CHF7944 includes an amount of CHF1954 for 2011 and CHF 1931 for 2012. These amounts were based on the membership numbers reported by the National Secretary in the SI Annual Return Forms for 2011 and 2012. The Annual Return for 2014 shows they had 1020 members. It would appear they have reported individual members in 2011 and 2012 rather than households. We have asked the Membership List Officer, Pablo Colangelo to investigate. This looks like another potential write off of around CHF2000. We note again there is a Provision for Doubtful Dues of CHF5000 (See also item 6 below)

EXCO Response: Host List coordinator will confirm by validation process and report.

7. Receivables Stamps Doubtful Debt Dues Provision - Note D5(c)

This note states that CHF5000 has been provided as doubtful dues as reluctantly agreed to by the Internal Audit Committee as against total dues of CHF17367. The note does state there are stamp dues dating back to 2008. In our opinion it is very unlikely that 100% of these will be collected. **The Internal Audit Committee is very concerned that returns from a National Servas Organisation made in 2016 of 805 stamps for 2011 and 2012 amounting to CHF14955 were sent to the ex-treasurer but not received by the Bookkeeper until May 2016. The Treasurer was aware of these pending returns in his email of April 1 to the National Treasurer. This amount of CHF14955 should have been written off in 2014 as part of prior year adjustments but will now be carried forward as a write off in 2015. The provision for doubtful dues of CHF5000 against this write-off is now accordingly inadequate. We consider this to be a subsequent event having a material effect on the reported loss of CHF33989.**

EXCO Response: The adjustment will be made in 2015 accounts.

8. Receivables Stamps - Note D5 d) Servas Member CHF14955

The additional note under schedule 5 d) “Due to the pending reconciliations from a Servas member country which constitute the major receivable towards stamp dues, the credit for unused stamps, if any, for the years 2011 and 2012 will be accounted for in the subsequent financial year.”

Unfortunately this statement is not true for the following reasons:

1. Pramod K. the bookkeeper confirmed by email on May 25 the reconciliation Graham sent to him the previous day had been completed.
2. The amount of the returns and write off CHF14955 was known as an entry under JNL 77 for 2011 amounting to CHF6780 and JNL 78 for CHF8175 both dated Dec 31,2015.

As the Treasurer had already had the 2014 Financial Statements approved by Exco at its April meeting he was reluctant to make a change for this material amount.

EXCO Response: In continuation of point 7, the adjustment will be made in 2015 accounts.

9. Receivables - SOL Contributions - Doubtful Debt Dues Provision - Note D5d)

This note states that CHF5000 has been provided as Doubtful Dues - SOL contributions as reluctantly agreed by the Internal Audit Committee as against total dues of CHF7944. As this was in effect a voluntary contribution, which was not accepted by all these National Organisations with over 100 members, we consider it unrealistic to expect to collect 100% of these outstanding amounts.

Servas International President has agreed to send a personal letter to all National Servas Organisations with SOL contributions owing at March 31, 2016 explaining again the purpose and importance of the SOL project and requesting again that contributions outstanding be now considered and paid. EXCO will need to set a time limit on these responses before writing them off.

The Internal Audit Committee also notes there is a sum of CHF3885 owing by a National Servas Organisation for SOL Contributions. This amount was likely overstated as it probably was reporting individuals and not households.

In addition, there is also a disputed amount of CHF1179 owing by another National Servas Organisation.

EXCO Response: In continuation to point 5, reminders are being sent to the member countries who are yet to pay the SOL fees.

10. Expense Recognition - without adequate support documents in some cases -Note D-11

This note states "Expenses have been recognised on an accrual basis based on the claim forms / emails submitted by SI Officials / Exco members without adequate supporting documents in some cases. We also note that under FOP2.34 the Treasurer may request Exco approval on certain items. We are not aware of any instances where EXCO has given approval without supporting documents. The copies of the 2014 Expense Claims for the President, Vice President, General Secretary and Treasurer have been received by the Chair of the Internal Audit Committee on June 20.

EXCO Response: This will be adhered to.

11. Prior Year Expenses Netted with Excess Provisions of earlier years -Note D-12

There was a small over provision of CHF360 for UN CoNGA fee from 2013. There was a provision for Doubtful Dues Stamp Fees of CHF5000 and CHF5000 for SOL contributions. (See above.). **This note covers a minor item but does not mention new provisions in 2014. We consider it should have been amended or deleted.**

EXCO Response; This will be adhered to.

12. Actual v Budget Report 2014 Actual Income

The 2014 total actual income on this report does not agree to the total income on the 2014 Income and Expenditure Statements. It shows Extraordinary Income of CHF4521 which is really exchange gains of CHF4383 and Interest from Credit Suisse of CHF138. The Exchange Gain of CHF4383 was shown as an expense in the Income and Expenditure Statement.

This reports needs amending to be consistent with the Statement of Income and Expenditure. This report was not amended by the Internal Audit Committee.

EXCO Response; This will be adhered to.

13. Corporate Information - Build World Peace - Note A

There is an important sentence missing here which is part of the statute definition which was also missing on the 2013 notes.

**“The purpose of the network is to help build world peace, goodwill and understanding.”
This report was not amended, as requested by the Internal Audit Committee.**

EXCO Response: This will be incorporated in the future report.

14. Budgets 2016 -2018 passed at GANZ 2015

The Internal Audit Committee has noted that the budgets approved by Servas International at GANZ showed a budgeted stamp income of CHF80000 per year. Based on actual net of returns income for 2013 of CHF 63798 and CHF58503 for 2014, **EXCO has now agreed this budget income is overstated by approximately CHF20000 per year and has prepared an amended Budget under FOP2.2.**

EXCO Response: The amended budget has been formulated and approved by SI EXCO and the IAC and will be taken to the DV Nov 2016 for approval.

15. 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 for review in 2015.

EXCO Response: Not agreeable. All costs relating to Projects are captured under Capital Work in Progress and capitalised when implemented. Meeting Costs were the preliminary initiatives based on which the committees were formed and action groups selected.

16. Treasurer Using his Personal Bank Accounts

The Internal Audit Committee again notes with concern the Treasurer has been using personal bank accounts for CHF EUR PLN and USD on the basis that the authorised signatories approved at GA 2012 were not registered with the bankers.

The new authorised signature agreement and documents approved at the 2015 GANZ have been sent to Credit Suisse on April 7, 2016 and Exco are awaiting their approval. The President has contacted the bank in May and June and should have the approval soon. This should mean the incoming treasurer will not need to use any personal bank accounts.

This was much confusion regarding this process after GA2015 and we have submitted to EXCO a procedure to cover this.

EXCO Response: This will be adhered to for incorporating new bank signatories.

17. Interest CHF Savings Account CHF136.56

SI have now invested CHF251000 (CHF181000 at the start of the year) in the savings account and earned CHF136.56 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 around CHF1800 per year.

EXCO Response: This will be evaluated for earning the interest income on fixed deposits.

18. 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 also note that Servas International remains unincorporated and this exposes EXCO and Officers to personal liability. We understand Servas has had a Public Liability Insurance to cover only conferences and events, but currently has no cover.** (Refer also FOP2.7 for Liability Insurance for conferences and events.)

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

EXCO Response: The discussion on Public Liability insurance came about owing to a change of venue for one of the past GA where some financial loss arose on forfeiture of the booking deposit amount of the conference site. EXCO may evaluate the need for such risk coverage depending on the situation.

19. Transaction Registers

We have noted that when the General Ledgers are updated the transaction numbers for journal entries changes, 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.

EXCO Response: The present accounting system permits incorporation of entries by which the journal number changes. This is to facilitate missed out entries if any.

20. Index General Ledgers / Chart of Accounts

We had difficulty when reviewing the Index General Ledger and the actual General Ledger to determine whether a debit balance was an expense or an asset and a credit balance was a liability, reserve or income. With the combined balance trial balance, it was difficult to work out which ledger accounts were included with each level of subtotal.

It would be good to have a chart of accounts with core accounts in the same category grouped together something like this.

- 100 to 149 Current Assets
- 150 to 199 Fixed Assets and Work in Progress
- 201 to 249 Current Liabilities
- 250 to 299 Long Term Liabilities
- 300 to 350 Equity – Accumulated Funds and Reserves
- 400 to 499 Income
- 500 to 599 Expense

Sub Accounts with say another 3 digits and /or 3 letters, if possible, could be used for Receivables, Bank Accounts, and Expense Categories etc. Headings and Subtotals could also be included in the Chart of Accounts.

EXCO Response: This is agreeable. Appreciate if Internal Audit could help and support in the proposed codification of accounts. Accordingly the Tally package masters would be modified to meet the new codes.

21. 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. On the same basis the Internal Audit Committee will copy the External Auditor on any reports they give to the Treasurer or Exco.

EXCO Response: Agreeable. Internal Audit can access the External Auditor and book keeper.

In Conclusion

We must thank again the sterling work done by the incoming treasurer in getting these long overdue 2014 Financial Statements published. We are now working with the treasurer to get the 2015-2016 Financial Statements out ASAP this year.

The Internal Audit Committee recommends Servas International EXCO reviews all these matters at their next EXCO meeting. Under FOP 2.6 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 22nd June, 2016