



## Interim Internal Audit Report of 2016

---

On Wednesday 7 December 2016, the auditors had a meeting with the President, Secretary-General and Executive Director about the current (financial) status of IFLRY. Note that the Treasurer was absent. The meeting was based on the documents the bureau provided to the Executive Committee. The findings and recommendations of the auditors are filed in this report.

In contrast to our planning, there has been no Interim Audit. That means this report does not contain concrete findings about the state of the bookkeeping in the office. This interim audit was planned, because of the change of both the Executive Director and the Treasurer during 2016. Due to unclear communications by the Treasurer, this audit could not take place.

The Auditors would like to discuss all points raised during the EC. We will both be present to respond to questions you may have.

**Robert Landheer**  
**Christian Holm**

[robert.landheer@iflry.org](mailto:robert.landheer@iflry.org)  
[christian.holm@iflry.org](mailto:christian.holm@iflry.org)

## General observations

### Disappearance of the Treasurer

A significant situation has occurred, namely the non-responding of the appointed Treasurer. Due to the Treasurer there has been a significant administrative delay since the change of Bureau in April, and since October the Treasurer has not been answering to any calls of the Auditors, fellow Bureau Members, or the Executive Director. This has resulted in both an unworkable and very risky/fraud opportune situation. For the time being the President and Secretary General have taken over the duties of the Treasurer. This however presents a situation that is not sustainable for a long time, nor desirable.

### Hand-over of Executive Director

In the third quarter of 2016 there has been a change of Executive Director. At the current way of operating, this person has a large role concerning the bookkeeping, which is done at the office in London. We have all confidence in the old and new Executive Director, and their handover. However, from the information we have, it seemed that the handover was quite short, with only one week available. This was a choice by the bureau, however we feel there should have been more time for a decent handover. Moreover, the timing of this change was not ideal, as a bureau Change and ED change in one year presents a continuity risk. We advise the new Executive Director to reflect on her learnings, and write an evaluation with concrete advices, on how to perform a future handover better. The bureau should be involved in this, also the timing of the change should be reflected, together with the change of the bureau.

**Advice 2016-1:** the Executive Director and bureau should evaluate the recent hand-over of affairs between the old and new Executive Director, and write a concrete advice for a future next handover process, and timing in relation to bureau Change.

To discuss the hand-over, and relieve the old Executive Director of her administrative duties, we had planned an audit in October 2016. Due to the above mentioned non-communication of the Treasurer, this audit did not take place however.

## Financial observations

### Accrual based bookings

We still welcome the change of the bookkeeping system to being accrual-based since 1 January 2015. Before, the system was cash-based. This means the bookkeeping reflects all the income and expenses attributable to the year.

### MO fee invoices

The Treasurer has not sent the invoices for Member Organization fees in this year. Currently this task has been taken over by the President and Executive Director. We heard during the meeting before the EC that at this current moment, the invoices have been sent out and a significant part has been paid already. The profit and loss statement till September 2016 that you received, shows that a significantly lower amount of income has been received at that time compared to last year. This is due to invoice not having been sent out by the date at which the report was based on.

### Accounts Receivables, bad MO debts and reserves

As can be seen in the balance sheet, there is still more than EUR 100.000 of accounts receivable. This is a very large risk for IFLRY, because if they would suddenly all stop paying, IFLRY is not able to cover the expenses from its own reserves. It is also a possibility that if IFLRY waits too long before handing in the final administration of event grants, that the organization that gives the grant will either refuse (part of) the money, or will be hesitant to award grants to IFLRY at future applications. These both provide risks we should be cautious of.

Of this, a part is covered by the untimely 2016 MO fee invoices. The auditors stress that it is of utmost importance that all member organisations (MO's) pay their membership fee and strongly approve of suspending and disaffiliating MO's that do not. We welcome the fact that the bad debts have been reduced from EUR 84k to EUR 34k in one year's time. We still think it is important that a possible new system of MO fees will create less bad debts.

Following our advice and GA decision the Bureau has started a working group to the review of MO fees. We are looking forward to seeing the outcome of it because there is still a problem of many MOs not paying their fees and other MOs feeling that the system is unfair.

In the 2014 Report, we advised the bureau about increasing the low financial reserves. This has not been worked on in the meantime. We repeat our advice from the 2014 Report:

*It is necessary to raise the financial reserves to a substantial amount, providing IFLRY with enough financial reserves to operate at a basic level for at least a year. This build-up of reserves will have to be based on the IFLRY membership fees, as grants may not be used to build up reserves. The preferable amount of this safety net is not fixed and should be explicitly determined.*

**Advice 2016-2:** the bureau should work out a proposal for the next GA or EC, concerning the preferable amount of financial reserves for IFLRY.

## Budget 2017

We have reviewed the proposed budget of 2017, and advise positively about it. It looks like a continuation of current policies.

As current, some programme's accounting is kept separate from the rest of IFLRY. I.e. income and expenditure from these programmes are put into the IFLRY budget through their net as income. This does not allow the reader of the balance sheet, and profit and loss sheet to gain an overview of the expenditure and income of these programs. Moreover, this exclusion is not consistent, as other programs are entered with both income and expenditure.

**Advice 2016-3:** to increase the transparency of programs income and expenditure, these should be included in the IFLRY book keeping and profit and loss accounts.

A large part of the yearly budget of IFLRY is derived from grants for which we must apply. Expectations of grant receipts are entered into the yearly budget and matched with expenditure. However, generally these estimates are just that, estimates. There is generally throughout the year heavy variation between budget and outcome as fund application outcomes are hard to predict. It would therefore be useful to have updates of the budget throughout the year. Moreover, in order to make these updates more transparent it would be good for the GA to easily be able to compare budget with realisation.

**Advice 2016-4:** the budget should be updated by the bureau on a quarterly basis and discussed with the auditors, in order to present the most actual picture.

**Advice 2016-5:** in order to make it easier to gaze how the economic outcome of the year matches that of the budget, include a comparison to budget when presenting the year to date figures.

## General remarks

### Functioning of the bureau

Beyond the disappearance of the Treasurer, there has been a disappearance of one of the Vice Presidents. The bureau member in question has been non-respondent since August.

The disappearance of the Treasurer and the VP is a serious issue, which not only poses risk, but that also has put a large burden on remaining bureau members and the office. In combination with both the bureau and the office being completely new, this has created a less than ideal situation. We would however give credit to remaining bureau members for having been able to cope with this situation. Furthermore, we think the General Assembly should discuss the further proceedings on this matter.

### Statutory review

The issue of disappearing bureau members has brought an important statutory risk into light. There is no procedure to remove a fraudulent, disappearing or otherwise inappropriate board member between general assembly meetings. This exposes the organisation to an unacceptable amount of risk for fraud and reckless behaviour as the board would have no way to stop it.

**Advice 2016-6:** the bureau and auditors should submit a statutory reform to suggest how to deal with inappropriate bureau members (such as disappearing, fraudulent, etc.). This proposal may include removing them from office, and should be presented for the next GA.