

Interim Internal Audit Report of 2017

*IFLRY - International Federation of Liberal Youth 14 December 2017*

On Thursday 31st of August 2017 in IFLRY’s London office, the auditors conducted an interim audit of IFLRYs financial affairs of the first two quarters of 2017. During this audit the President, Treasurer and Executive Director were present to answer the auditor questions. During this Audit, after corrections had been made the bookkeeping of IFLRY was found to be in a satisfactory order.

Throughout the year there has been close contact between the auditors and the Bureau regarding the practical running of IFLRY. Notably there has been significant change in personnel working for the bureau, with both Josh and Denali joining the office.

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# **General observations**

### **Introduction**

The auditors were able to conduct an interim audit with parts of the office and the bureau. This allowed us to gain an accurate half way insight into IFLRYs operations, and reduce the burden for the annual audit. The auditors are particularly happy to see that the Bureau has created an action plan for implementing our advice, and taken much of it to heart. The Bureau has made a spreadsheet of the auditor advice where each point is noted and given priority order. Moreover, we are thrilled to see that advice 2017-V, 2017-VII, 2017-VIII, 2017-IX and 2016-1 have been implemented, with advice 2017-II, 2015-2, 2016-4, 2017-III, 2017-IV, 2016-5, 2016-6 and 2017-I being in the process of being implemented (see referenced advice at the end of the report).

### **Executive Director**

The Executive Director Andrea has since late this last summer reduced her position from full time to part time. This has created a situation where IFLRY has no full-time staff, but rather 3 part time workers. This is not an ideal situation, but the auditors do note that it has had the consequence of a very clear division of labour in the office. Importantly we have one person who is responsible for financial questions, which the auditors think may make IFLRYs handling of financial matters more efficient. Indeed, the solid handling of the current situation by the office has given the auditors some faith in that the current situation may be sustainable for some limited amount of time.

In light of these changes the auditors can only reiterate the importance for creating hand-over guides and thinking carefully through how handovers in the future should occur. The assistants have in this instance take on some of the burden that is usually placed on an executive director. Moreover, as IFLRY at some point in the future once again hire a full time Executive Director the hand over process needs to be in order. Order which was partially lacking in the last hand over, which resulted in the loss of a lot of knowledge during the hand over. In light of this the auditors feel that the Bureau should not initially have treated advice 2016-1 as a low priority point. However, we are happy that the advice now has been implemented.

**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.

IFLRY will eventually have to look for a full time executive director. Simultaneously there have been concerns raised by the Bureau about changing location. Brexit may lead to changes in regulatory framework in the UK primarily regarding the immigration of EU nationals and may lead to changes in availability of European funding to organisations located in the UK.

**Advice 2017-X:** The office needs to decide on how to handle the current executive director situation. The Bureau should at some point in the future hire a full time Executive director, this decision may ideally be done in tandem with a decisions of where IFLRY’s office should be located.

### **Office routines**

Overall the auditors are happy to see that despite all issues that arose last year surrounding hand over of the role of executive director and treasurer, as well as the fact that we lack a full time staff, the office has generally been run well.

We are happy to see that the new members of the Bureau seem to have rapidly gotten into their roles. We are also encouraged by the office assisting the Bureau in representing IFLRY at certain events.

The auditors look positive to the new division of labour in the office, where each member has a clearly defined area. We believe that this is a recipe for a more efficient bureau.

However, performing our interim Audit the Auditors uncovered several issues in office routines. The first of which is that office members have done double bookings of flights, for the same person, time and destination. We are baffled by how this mistake has been done multiple times and strongly suggest that the office look over their routines. We hope that clearly dividing up tasks within the office will prevent this from re-occurring.

**Advice 2017-XI:** The office needs to improve their routines for booking plane tickets. Booking the same ticket twice is not ok.

**Advice 2017-XII:** To avoid double payments, it may be advisable mark paid receipts as paid. The routines regarding payment will likely be better as they are all put on one person.

The process of booking tickets often takes some time with many emails going back and forth through the process. During which time sometimes flight prices goes up. To streamline the booking process the auditors suggest that the office hold on to the passport details of Bureau members and auditors.

**Advice 2017-XIII:** The office need copy of passport details of all IFLRY officials, for flight bookings.

Going through the bookkeeping it was clear that an office member whom have now left, at a time close to when their notice was handed in did a sloppy job with the bookkeeping. Several receipts were attached with erroneous claims. During the interim audit all these abnormalities were corrected and accounted for, with no abnormalities remaining. However, this disorder did cause a more slow moving audit.

Furthermore, there are some changes to office routines that the auditors would suggest.

In the current system, when expenses are made in countries with lacking availability of receipts at purchases, self-receipts have to be filed. To make this system more clear for the auditors we suggest:

**Advice 2017-XIV:** Change the routine for self-receipts and write why the receipt is missing before the 2 signatures sign it. For where this has not been done, adjust by adding relevant information.

Josh has been given responsibility for financial issues, while Andrea as Executive Director is the only one in the office authorised to make payment. The two overlap working one day a week together, which means that there is only one day a week payments can realistically be made. This is not an ideal situation, as it leaves little flexibility. The situation indeed requires a high degree of planning by the Bureau and the office. This is a workable state of affairs temporarily, but the auditors hope that it is changed soon when the Bureau settle on the coming location of the offices.

### **Event routines**

For the process of registration for previous GAs there has been issues with MOs paying their participation fees very close to the event, not getting ticked of on the office’s list and other such payment confirmation issues. The auditors therefore recommend that the office creates invoices in Xero for all the event fees, and can print out a fresh copy of outstanding invoices just before registration for GA, creating much less confusion.

The auditors also urge attending members to indeed use bank transfers to pay these fees, when possible and feasible. As bank transfers reduce the offices cash handling.

### **Cash routines**

During the year the petty cash held in the office has been significant, peaking at a cash Euro holding of roughly € 1,800. This makes the auditors quite nervous, as it is a huge liability in the case of burglary of our office. We recommend that the office should try to avoid holding such large amounts of money in cash any significant amount of time, and if the office end up with such large holdings that the office deposits some of the money with the bank as early as possible.

**Advice 2017-XV:** The office should carry less cash, carrying € 1,800 is too big a liability in case of burglary, a part of which may be that we need to be stricter in demanding bank transfer for event payments.

During the audit some of the petty cash was not at the office, but held by a trainer. Having IFLRY petty cash split is not a good idea and is a recipe for losing track of cash.

**Advice 2017-XVI:** It is not good that petty cash is split, that € 100 is not at the office but with a trainer. As far as it is possible the petty cash needs to stay in one place.

**Payment routines**

There have been some instances where euro claims have been paid in pounds and vice versa. Fortunately the two currencies are very close in value, but it is a mistake that should be avoided, and could be avoided.

**Advice 2017-XVII:** When filing expense forms the form associated with the currency in which repayment should occur should be used, to avoid confusion, i.e. avoid paying a euro debt figure in pounds.

Through the audit there have been a handful of instances where euro payments have been made with a pound denominated debit card and visa versa. We thank the office for overall avoiding this, but it happened a few times. The issue with such payments are that they incur a currency transfer fee.

**Advice 2017-XVIII:** It is not ideal that we are making euro payments with our Lloyd pound account as this solicits high charges. The office should take steps to not commit such payments in the future.

**Advice 2017-XIX:** Do copy and prepare the expenses for events. These copies are already being sent to EYF and would be helpful if a copy of send documents are given to the auditors.

**GA Planning**

The auditors note that both for the GA in Istanbul and Beirut there have been security concerns regarding the GA. Something which the Bureau has said as much itself, in both cases holding of confirmation of venue unto the very last minute. Generally, such venues discourage some western participants, but increase “local participation”, in these cases from MENA.

However, the auditors are concerned about the late confirmation date of these events. As it drives up prices for the Federation and for MOs. As everything has to be booked last minute, depending on the Bureaus call on the temporary security situation. This goes against the spirit of advice 2017-VII.

**Advice 2017-VII:** The Bureau should plan events and meetings earlier and stick to the deadlines to cut down the costs of e.g. plane tickets.

# **Financial observations**

### **MO fee invoices**

The auditors have been informed that the Treasurer has sent invoices for Member Organization fees.

**Accounts Receivables and bad MO debts**

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 grands, 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 2017 MO fee invoices. The auditors stress that it is of utmost importance that all member organisations (MO’s) pay their membership fee and we strongly approve of suspending and disaffiliation of MO’s that do not.

**Advice 2017-XX:** Bureau should suspend members that don’t pay their debt. Exceptions can be made, but these should be highly exceptional.

The Auditors welcome the fact that IFLRY is constantly getting more bad debts of her books, and remain positive to the current rules regarding how the Bureau should write of debt from our books. The current figure is EUR 20k, down from EUR 34k last year and EUR 84k the year before last. We also encourage organisations that have outstanding debt to pay it promptly, and encourage the Bureau to continue their solid work of getting some of these organisations to pay their debts.

# **General remarks**

## **Functioning of the bureau**

The auditors are under the impression that the Bureau has functioned well, and been active. The Bureau has had 2 physical meetings and 5 phone meetings since the GA in Thessaloniki. We are happy to see that the Bureau has been very active in managing many events, and in supporting the programs. We are also happy to see the Bureau having well thought through and thorough proposals for changes to statutes and MO fees. The Bureau has become much more stable over the last year and the book keeping has been improving, being done on a monthly basis now. We are also happy to hear the Bureau describing an improvement to day to day operations.

The auditors were distressed over hearing that our KBC account was blocked for a few weeks. This is due to the legal status in Belgium is complicated, as it is very hard to on paper change responsible people for our Belgium accounts. This has resulted in former Bureau and office members receiving letters from the bank etc. Which they now at least at one instance have failed to pass on promptly, causing the temporary freezing of the KBC account. The auditors are pleased to hear that the Bureau is looking to close our Belgium legal status and KBC account, and move it to another EU state with simpler legislation. Something which may occur in combination with moving offices. Meanwhile we ask the Bureau to consider changing the people on paper responsible for these accounts.

**Advice 2017-XXI:** Bureau should look at closing KBC account, and move our accounts to another Euro country with less complicated rules for NGO accounts than Belgium.

The auditors have a limited insight into the Bureaus operations between the audits and GAs, which is less than ideal. Information that should be shared through the year isn’t. To improve the issues in the auditor Bureau contact, we will introduce monthly skype calls between the auditors and the Bureau.

The impression of the auditors are that the IFLRYs programs have been variant, some being more successful than others.

The auditors are happy to see that the Bureau has been very active in implementing previous auditor advice.

## **Statutory review**

The auditors are happy to see that there is a comprehensive proposal for statutory review submitted by the bureau. In previous advice the auditors have stressed the importance on the bureau being able to remove unsuitable Bureau members. We are happy to see the Bureau proposing a concrete solution as to how to deal with a situation identical to the one that arose last year with non-respondent members. However, we lack proposals for how the Bureau can deal with other reasons of unsuitability. Members that for instance may threaten the reputation of IFLRY, or act fraudulently. There need to be a mechanism to remove such members.

**Advice 2016-VII:** 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.

The auditors also note that if an individual voluntarily resigns, the Bureau is able to replace that position temporarily, however, this option is not defined for the instance of suspension as only replacement through 3.6.4 is specified. We believe that there may be reasons to harmonize these two instances, i.e. that of resignation and suspension, in this regard. Whether this is done by the Bureau temporarily appointing a new member themselves or by the Bureau dividing up the work amongst themselves, is a matter for the GA to discuss. The Auditors reiterate advice 2017-III as one possible solution.

**Advice 2017-III:** The Bureau should draft an emergency manual in which they describe after what period the tasks of a non-responding member of the Bureau should be taken over by another member of the Bureau. Make sure that every member has a back-up replacement within the Bureau and that that person knows enough to replace them should it be necessary.

The Auditors are happy to see a well thought through proposal as to how to introduce associated memberships. Associated members have substantially fewer rights than full members, reflecting their lower levels of contributions to and involvement in the organization. We also appreciate the changes to quorum definitions, which are natural consequences of this reform.

### **MO fee group**

The auditors are happy to see that the MO fee discussion has resulted in concrete proposals. We are also happy to see that these proposals are founded in the realities of IFLRY’s ongoing financial needs. We look forward to a strong discussion about how to structure the future fees. We also note that this will create further changes to the statutes, which we hope at the end of the process will be a strong and coherent framework for IFLRY.

**Existing advice**

Advice 2017-V, 2017-VII, 2017-VIII, 2017-IX and 2016-1 have been implemented, with advice 2017-II, 2015-2, 2016-4, 2017-I, 2017-III, 2017-IV, 2016-5 and 2016-6 being in the process of being implemented.

**2017 (Report for Thessaloniki)**

**Advice 2017-I:** When a (major) change in the office occurs, free the resources to make sure that the leaving and the incoming person have enough time to transfer knowledge and processes.

**Advice 2017-II:** The office should, together with the bureau, set up, find or improve (as extensively as possible) the working manuals, so that new assistants (and executive directors) always have an extensive back-up document to refer to and that everyone works with the same system.

**Advice 2017-IV:** Starting as a treasurer, auditor, executive director or executive assistant can be overwhelming. To save time and to prevent errors, we would suggest that at the beginning of their term, treasurers, auditors, executive directors and executive assistants should receive a training so they can start their term knowledgeable and with confidence.

**Advice 2017-V:** In case of exceptions to the financial guidelines, we would suggest keeping track of decisions made by the office, treasurer or Bureau and refer to minutes or e-mails on the income and expense forms.

**Advice 2017-VI:** The Bureau should set guidelines for the budget of e.g. meetings, and decide whether it is okay for IFLRY (or grants) to pay for alcoholic drinks. These guidelines should be approved by the next General Assembly. That will help the executive director in deciding the budget and approving expenses

**Advice 2017-VII:** The Bureau should plan events and meetings earlier and stick to the deadlines to cut down the costs of e.g. plane tickets.

**Advice 2017-VIII:** The auditors, the bureau and the office should plan an interim audit for 2017 at least two months before the next General Assembly.

**Advice 2017-IX:** The bureau should write an action plan how and when they are going to implement the earlier advices. This action plan should be sent to the auditors two weeks before the interim audit 2017.

**2016**

**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.

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

**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:** 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.

**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.

**2015**

**Advice 2015-2:** The bureau should consider the working processes and tasks of the office. This may mean other officers within IFLRY, such as vice presidents and program managers, should take over tasks from the office.