



SERVAS INTERNATIONAL - INTERNAL AUDIT REPORT
FOR THE YEAR ENDED MARCH 31, 2019

We received the following documents from the Treasurer on 19th August 2019 for the financial year ending 31st March 2019 for our review:

1. Tally Files
2. Bank Statements
3. Provisional Financial Statements with support schedules.
4. Budget vs Actual comparative statement.

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 2018 to 31st March 2019 vide the Income & Expenditure Account and also of the SI finances as reflected by the Balance Sheet as of 31st March 2019 subject to our following observations:

1. SOL has been operational for the past two years and the SOL maintenance expenses has grown disproportionately from CHF 9,434 in last year to CHF 36,870 for the year under review. We note that SI had to heavily rely on external agencies at higher costs to operate SOL.
2. Whether the residual value of Dolphin of CHF 152 in the Assets schedule could now be written off?
3. The Stamp revenue of CHF 54185 this year, is lower by CHF 2354 as compared to last year. The fall in the stamp revenue is reflected by more than 50% the stamp returns made by the major member as shown under:

Member Country	Requested Value CHF	Returned Value CHF	% of Returned Value to Requested Value
Austria	850	460	54.1
Britain	4150	2145	51.7
Czech Republic	700	550	78.6
Denmark	4150	3690	89.0
Finland	100	60	60.0
India	400	240	60.0
Japan	860	430	50.0
New Zealand	2650	2000	75.5
Norway	50	50	100.0
Russia	300	290	96.7
Korea	1150	870	75.6
Sweden	1150	1020	88.7
Switzerland	1300	675	51.9
Thailand	100	60	60.0
Turkey	400	350	87.5

4. The Development Fund Reserve shows an unutilized opening balance of CHF 18,846 against which CHF 6264 have been spent by the DFC in the year under review. It is quite surprising to see that EXCO has allocated a further sum of CHF 18,000 to DFC despite having sufficient funds. The Income and Expenditure shows Donation (Restricted) of CHF 2,783. Since this is directly attributable to DFC by the member countries, the same cannot be reflected as income of SI.
5. The bank charges have gone up to CHF 3,220 from CHF 403 of last year because of remittances to the delegates of the GA at Korea. And also SI have picked up all the bank charges for remittances made thereby beneficiaries receiving the gross amount.
6. Total GA expenses at Korea amounted to CHF 135,375 against which Delegate fees received amounted to CHF 69,052 leaving a net deficit of CHF 11,323 after adjusting GA reserve of CHF 55,000.
7. The registration of SI remains incomplete despite EXCO having obtained legal consultation from the Swiss legal attorneys.

The Corpus fund of SI is reduced by CHF 47899 this year as compared to addition of CHF 3444 last year. This can be attributed to following:

(i) Decline in stamp revenue: resultant of the high rate of stamp returns by the major member countries owing to general economic downturn and uncertain climate conditions prevailing around the world. The changeover to annual fixed membership subscription to SI by the member countries based on past three year's average will further impact SI revenues vis-à-vis the increasing SOL maintenance expenses. We would like to know the growth of new membership after SOL becoming operational.

(ii) Increase in SOL 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.

(iii) Excess of GA expenditure over delegate fee income resulting in a deficit of CHF 11,323 after reserve adjustment of CHF 55,000.

(iv) Additional Allocation of CHF 18,000 to DFC although sufficient funds were available.

Similar trend of expenditures for the coming years 2020-21 and 2021-22 may further deplete the corpus fund leaving SI finances in a dismal state. It is time that EXCO needs to view the SI financial situation more urgently and take corrective action to prevent further deterioration.

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. EXCO to exercise financial prudence and austerity measures like cutting down travel costs and face to face meetings to be replaced by skype meetings.
- (b) Involvement of IAC while evaluating the commercial contracts so all parameters may be looked into, to ensure better internal control before signing the contract.
- (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.
- (d) Critically review the expenditure budgets from the various committees and check vis-à-vis their committed activities and curtail expense allocation wherever possible.
- (e) Extend the GA from the 3 year gap to 4 years so that the incidence of additional deficit can be deferred.
- (f) Complete the SI registration on urgent footing 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.

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

We appreciate responses from the EXCO to our observations and offer to extend our full co-operation to support EXCO in fulfilling the approved motions passed in the Korea General Assembly.

L V Subramanian (Convenor of IAC)
Phyllis Chinn (Member of IAC)
Gulsen Elyak (Member of IAC)