

International Disability Alliance

Management letter

Financial statements as of 31st December 2018

Ladies and Gentlemen

We summarize below the significant observations, which we have made during the course of our audit of financial statements as of 31 December 2018 of the Swiss companies audited by ourselves and of the foreign subsidiary companies for which a management letter has been prepared.

The following observations are based on the results of the audit procedures performed in the course of our normal audit work. Therefore, an in depth examination could lead to further observations and recommendations.

We will be glad to be available to provide additional information or to discuss matters raised.

We would like to thank the members of your staff for their pleasant cooperation and their readiness to support us in our work.

Lausanne, 22 May 2019

Ernst & Young Ltd

Serge Clément
Partner in charge

Bojan Radovanovic
Manager

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Executive Summary – key figures



Executive Summary – key figures

Project costs	2018	2017
Human Resources	1'754'271	1'526'390
Governance / General Assembly / Board meeting	214'649	174'529
Project Costs	3'191'633	1'768'133
Fundraising and Operational Coordination	161'093	0
Support Costs	331'782	242'352
Reasonable accomodation staffs	176'901	41'737
VAT & Finance	93'828	50'696
Total costs	5'924'159	3'803'837

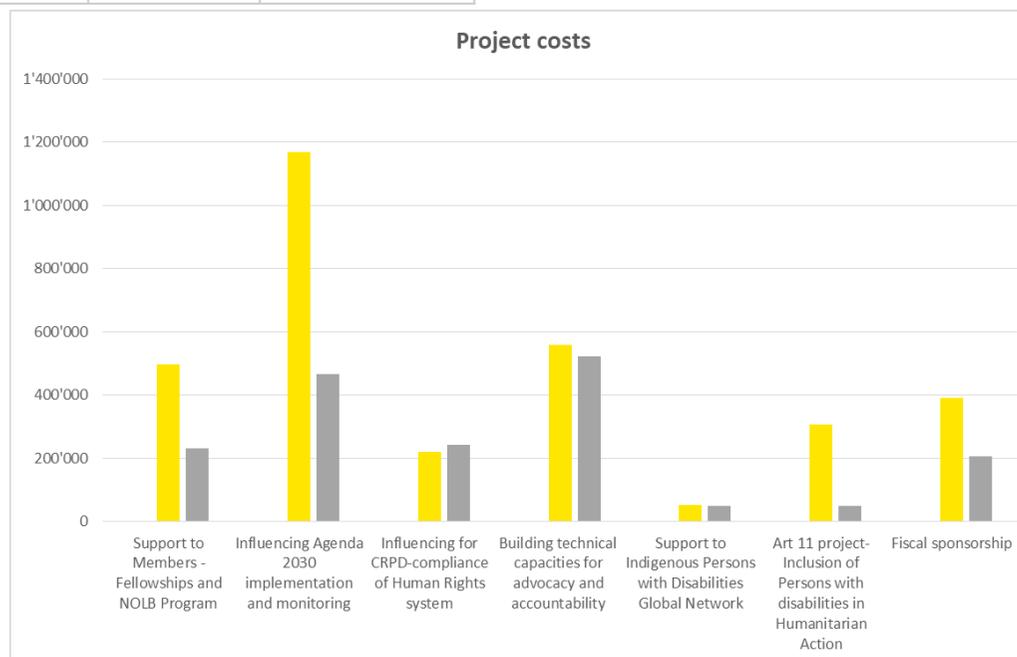
In 2018, the higher level of financing from the funders resulted in a general increase of activity costs notably:

- ▶ Payroll costs: +25%
- ▶ Project costs: +81%

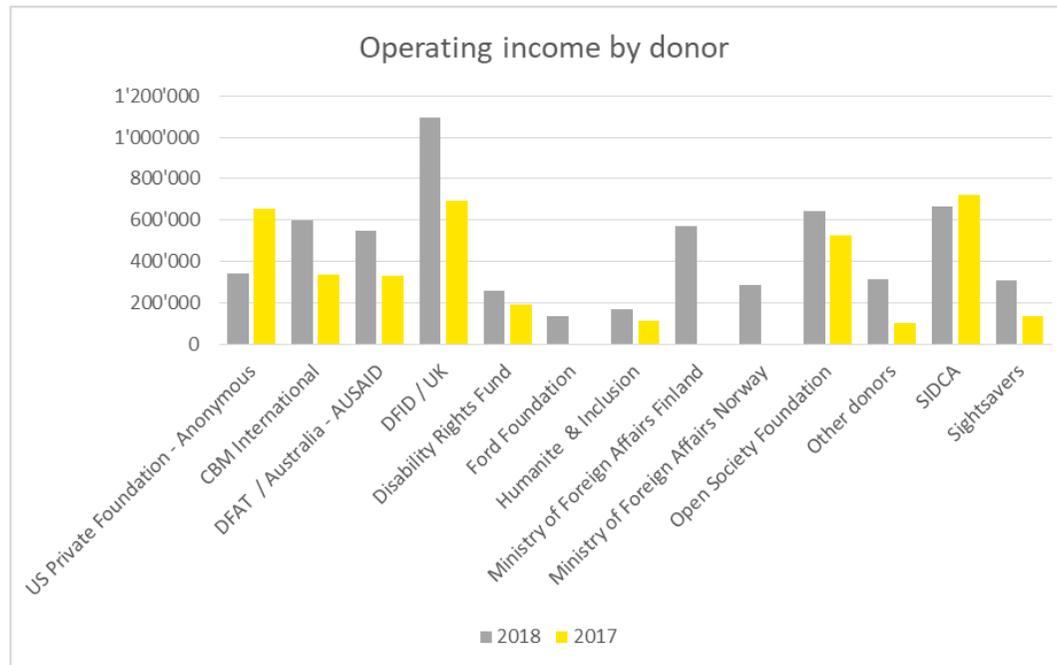
Payroll costs reflect the IDA growth and development with more FTEs in Geneva, New York and new employees in Serbia and India.

The largest share of the Project cost increases come from the activities related to “Influencing Agenda 2030 implementation and monitoring”.

This increase is explained by the organisation of specific events such as the Global Disability Summit held in London, July 2018. These main events are cyclical and do not occur each year.



Executive Summary – key figures



The Grants contributions increased significantly in 2018 (+56%). The largest donors increases are broken down as followed:

- ▶ CBM international: +261 KCHF (+78%)
- ▶ DFAT - AUSAID: +218 KCHF (+66%)
- ▶ DFID – UK: +398 KCHF (+57)
- ▶ Sightsavers: +176 KCHF (+132%)
- ▶ Ford Foundation: +137 KCHF (new)
- ▶ Ministry of Foreign Affairs - Finland: +572 KCHF (new contract, previous one stopped in 2016)
- ▶ Ministry of Foreign Affairs – Norway: +282 KCHF (new)

Audit Observations, recommendations, measures



Audit Observations, recommendations, measures

Aprobation by the executive director

Observation

Important decisions, such as working and consultancy contracts validation have to be testified with the executive director signature.

However as the signature is materialized by a stamp accessible to anyone, there is a risk that the stamp is missused.

At the moment the risk is considered as low since IDA is still small. However with growth IDA is experiencing, this risk may increase if no control is implemented.

Recommendation

We recommend at least to restrict acces to the stamp.
Furthermore, the validation e-mail could be printed and kept with the signed contract.

Comments of management

- Signatures are a great challenge for IDA Secretariat since the structure is small and disseminated in different locations (Chair in Ecuador, Treasurer in Greece, ED in NY office and Resident Manager in Geneva).
- IDA will tackle this issue in two steps:
 - 1/ In 2019, the admin guidelines will be finalized and will define clearer level of delegation between Chair/Treasurer level, Executive Director level and Resident Manager – Operations and Finance Manager level.
 - 2/ As part of the investment in the new Financial Information Software – SAGE Enterprises (kick off on 15 May 2019), IDA will invest in 2020 in dematerializing all its paper documentation. This shall make signing procedures simpler (through tools such as DocuSign etc...).

Audit Observations, recommendations, measures

Documentation of the Internal Control System

Observation

The internal control system exists as defined by Swiss Law, and is appropriate considering the size and the complexity of the entity.

However, we noted that some controls are not properly documented. We list, below, the key controls that were not sufficiently documented :

- ▶ Reconciliation of subledgers to general ledger for suppliers, fixed assets
- ▶ Reconciliation between revenues declared for VAT and revenues in the general ledger
- ▶ Verification and reconciliation of the grant follow-up file to general ledger for revenues, expenses and accruals
- ▶ Reconciliation of salaries payment file to the approved payroll prior the effective payment
- ▶ Verification of all employees in the payment list to determine the eligibility for salary

Recommendation

We recommend to document all the controls performed in order to have a material evidence of the existence of the internal control system.

Moreover, a checklist for the closing process could be implemented to monitor and document the performance of all controls in the process.

Comments of management

- So far those controls are done by the accounting & finance team and materialized within the financial software (where lettering, balancing and clearing processes are materialized).
 - The financial software guarantee:
 - Reconciliation of suppliers
 - Reconciliation of assets
 - Reconciliation of grants revenues, accrued and deferred grants incomes
 - Reconciliation of salaries
- => De facto those control are done on day to day basis by lettering and clearing.
- As requested by EY we will materialize those controls by printing all the documents above and ensure they are signed on a monthly basis by the Finance Officer and the Operations and Finance Manager and by developing a monthly closing checklist.
 - Concerning the following point : *Reconciliation between revenues declared for VAT and revenues in the general ledger => Please note the Operation and Finance Manager already signs the quarterly returns which reconcile the VAT with general ledger. We will nonetheless improve the process by printing and signing the GL account related to VAT provisions.*

Audit Observations, recommendations, measures

Overtime and vacation provision

Observation

Overtime and paid leaves were provisioned for the first time in 2018 following EY recommendations.

We noted a slight under-valuation of 17 KCHF broken down as followed:

- ▶ USA: 8 CHF
- ▶ Geneva: 7 KCHF
- ▶ France: 2 KCHF

This under-valuation comes from the fact IDA did not make any financial provisions for paid leave related to 2018 and taken by the employees during Q1 2019. Financial provisions were only made for paid leaves not taken in 2018 and paid in 2019.

Recommendation

We recommend to fully provision the amount of overtime and paid leave regardless the way of compensating it (paid or taken by the employee during Q1 N+1). Indeed, in case of departure of the employees, those shall be paid and therefore reflected in the provisions.

Comments of management

- Noted and we will follow up EY recommendations for 2019 audit

Audit Observations, recommendations, measures

Lack of Equity

Observation

Historically IDA is only funded by grants and therefore does not have any equity except reserve funds amounting to 14 KCHF as of 31.12.2018.

This lack of equity results in a structural weakness for IDA. In fact, the entity would probably not be able to face any unforeseen financial loss which could occur on the course of its projects. For instance the organisation would not be able to cope with being requested to reimburse a grant after a breach of agreement or would not be able to match any unforeseen cost not covered by a grant.

Recommendation

We recommend to constitute equity in order to solidify the financial structure of the entity. A solution could be the utilization of grant income that are not fully used during the financial year instead of deferring those revenues for future charges.

Comments of management

IDA agrees with the position of EY.

Building equity is part of strategic discussions with IDA main donors such as SIDA or DFAT. IDA is also slowly thinking about engaging in private fundraising. Such solutions requires time, financial and human resources. We do not expect concrete results before 2023-2025 at the earliest.

So far, IDA donors would not accept to transfer deferred income to reserve funds. This position is unlikely to change due to grant regulations, which do not allow any net profits. Unspent funds should be returned to donors at the end of the eligibility period.

As exchanged with EY, a first intermediary step could be dedicating one line in the balance sheet / equity section to *deferred core funding*. In other words all core funding unspent by 31.12.N would be shown in this equity section. This could be seen as «temporary» equity, and would be free to be used until the expiration of the grant eligibility period.

On the long run though, the only solutions are indeed 1/ receiving equity instead of grants from donors or 2/ private fundraising.

Audit Observations, recommendations, measures

Follow-up on partnerships

Observation

From IDA accounting point of view, the partnership agreement signed with third parties (Organisations of Persons with Disabilities, Universities etc..) incur financial advances to those third parties which are booked within the supplier accounts.

Recommendation

Create an account for the partnerships classified as an asset.

Comments of management

- The implementation of the new Finance Information System (SAGE) in 2019 will result in new processes to register financial advances to our partners and financial closing from their end.
- We will closely work with EY to ensure those processes comply with the recommendations expressed in this management letter.
- We will follow up EY recommendation to register those partnerships as an asset.

Audit Observations, recommendations, measures

Signatures

Observation

Mr. Cuk, the Executive Director, Mr Vardakastanis, the Treasurer, and Mr. Bach, Resident Manager have the authority to sign by sole signature in the commercial register and in UBS bank account.

As a consequence, they can withdraw cash and engage the company with an individual signature.

We understand that it is difficult for the client to have a joint signature due to the localisation of the employees (one in NY, one in Greece and one in Switzerland).

Recommendation

We recommend to set up a double signature for the bank account an for the commercial register despite the needed flexibility in the operational management.

Comments of management

- 90% of IDA payments are done by wire transfers which already require a double signature (Operations and Finance Manager and Finance Officer). This system is implemented with UBS. This system has been set in 2016 and has been strictly followed since then.
- We will follow up EY recommendatons and also ensure a double signature for transactions that are directly processed at the bank's counter. Those transactions are restricted to cash withdrawals.
- Payment with Mastercard and Maestro are limited to 10,000 CHF per month as per Mastercard regulations and 4000 CHF per week as per Maestro regulations. We use such payments exceptionnaly, mostly in case of emergencies during events overseas.

Thank you!

