

# International Disability Alliance

Management letter

Financial statements as of 31 December 2019

Lausanne, 6 October 2020

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 2019 of the Swiss company 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.

Ernst & Young Ltd



Serge Clément  
Associate Partner



Alessandro De Luca  
Manager

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## Management letter

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# Executive Summary – key figures



# Executive Summary – key figures

Operating Costs	2019	2018
Human Resources	1 870 127	1 754 271
Governance / General Assembly / Board meeting	264 949	214 649
Project Costs	3 357 689	3 191 633
Fundraising and Operational Coordination	261 000	161 093
Support Costs	459 006	331 782
Reasonable accomodation staffs	217 972	176 901
VAT & Finance	44 528	93 828
<b>Total costs</b>	<b>6 475 270</b>	<b>5 924 159</b>

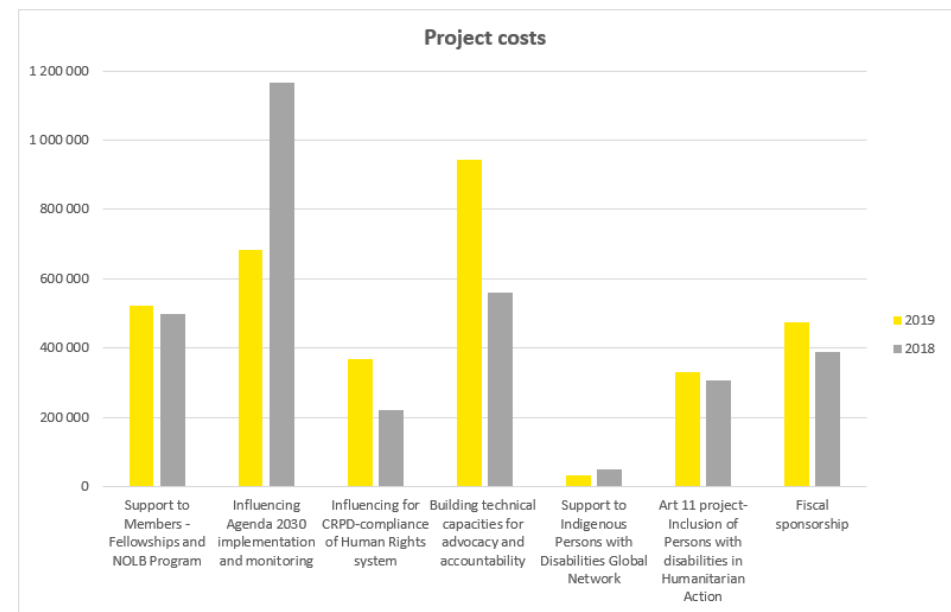
In 2019, the higher level of financing from the funders resulted in a general increase of activity costs notably:

- ▶ Payroll costs: +7%
- ▶ Project costs: +5%
- ▶ Support Costs: +39%

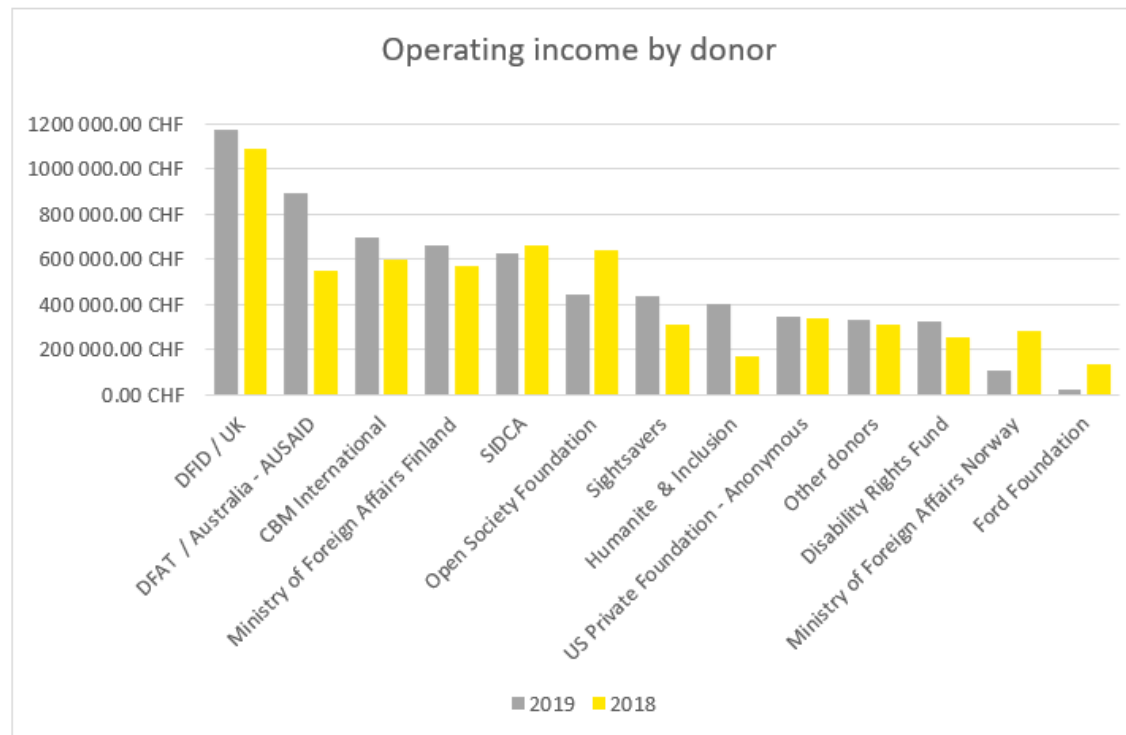
Payroll costs reflect the IDA growth and development with more FTEs in Geneva, New York, Serbia and India.

The largest share of the Project cost increases comes from the activities related to “Building technical capacities for advocacy and accountability”.

The increased spending of support costs is mainly due to the investment in IDA new ERP, for an approximate amount of KCHF 65. Moreover, the increasing level of activities led to increasing investments in support costs (including the purchase of more computers and office furniture, for instance).



# Executive Summary – key figures



The Grants contributions increased from KCHF 5'924 to KCHF 6'475 (+9%). The largest donors' increases are broken down as followed:

- ▶ DFAT - AUSAID: from KCHF 548 to KCHF 894 (+ KCHF 346 and +63%)
- ▶ Humanite & Inclusion: from KCHF 169 to KCHF 400 (+ KCHF 231 and +137%)
- ▶ Sightsavers: from KCHF 310 to KCHF 439 (+ KCHF 129 and +42%)

# Audit Observations, recommendations, measures



# Audit Observations, recommendations, measures

## Documentation of the Internal Control System

### Observation

The internal control system exists as defined by the 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 :

- ▶ Verification and reconciliation of the accrued revenue and expenses and deferred revenue and expenses.
- ▶ Verification that all contracts have been signed by the appropriate responsible people.

### Recommendation

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

### Comments of management

In 2020, IDA took into consideration the 2019 Management letter and already implemented monthly controls on the following:

- ▶ Payments of salaries and benefits
- ▶ Assets
- ▶ Suppliers and clients accounts
- ▶ Income received
- ▶ OD above 100 CHF
- ▶ Translation differences
- ▶ Internal banking transactions
- ▶ Balances on banks
- ▶ Cashboxes controls

IDA will keep improving those monthly controls and include the verification and reconciliation on accrued and deferred revenues and expenses from Q4 2020 onward.

From 1 January 2021, IDA will implement docusign system to ensure appropriate signing on the following documents:

- ▶ Funding contracts.
- ▶ Employment contracts and amendments
- ▶ Sub granting agreements.
- ▶ Governance minutes and policies.
- ▶ Payment of bonuses and provisions for untaken leaves
- ▶ Board meeting attendance fees.



# Audit Observations, recommendations, measures

## Approbation and signature of important decisions and documents

### Observation

Important decisions and documents, such as executive meetings minutes, general assembly meeting minutes and bonus approval have to be signed.

We noticed that these documents were not formally signed in 2019. We understand that this is linked to the extraordinary situation of COVID-19 pandemic.

### Recommendation

We recommend to set up a signature process for meetings held virtually. We also recommend to implement controls to verify that all important decisions have been approved and that this approval is documented.

### Comments of management

From 1 January 2021, IDA will implement docusign system to ensure appropriate signing on the following documents:

- ▶ Funding contracts
- ▶ Employment contracts and amendments
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- ▶ Governance minutes and policies
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# Audit Observations, recommendations, measures

## Signatures (Bank and Commercial register)

### Observation

Mr. Cuk, the Executive Director and Mr. Bach, Resident Manager have the authority to sign by sole signature in the commercial register. Moreover, Mr Cuk, Mr Bach and Mrs Avades, executive assistant have the authority to sign by sole 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 and for the commercial register despite the needed flexibility in the operational management.

### Comments of management

The double signature at the bank is already effective in Switzerland (UBS account) from 1 January 2020. The double validation for e-banking has been implemented in 2016.

Transactions through UBS account in Switzerland represent 90% of the total volume of transactions performed by IDA and comply with EY recommendations.

In the US, IDA has two bank accounts:

- ▶ With UBS NY a double signature is not possible but we do not consider it creates any significant issue since: 1) UBS New York is not a commercial bank and therefore IDA cannot proceed to any transactions at the bank agency and cannot withdraw money at the counter; 2) Payments are exclusively done by e-banking which require double validation (same process as UBS Switzerland), or by direct debit orders (for instance for salaries and office rent).
- ▶ With Citibank, a double signature is not possible neither, but this account is only used for petty cash and day to day expenses. There is a limited volume of transactions on monthly basis (5 transactions on average for an amount no exceeding 5000\$ per month). We would like to keep this account open as it prevents IDA team from keeping too much cash in the NY office safe.

# Audit Observations, recommendations, measures

## Cashboxes in New-York

### Observation

The reconciliation of cashboxes held in New-York could not be confirmed. The reconciliations could not be obtained from the New-York offices, since the ongoing COVID-19 pandemic prevents the NY employees to access their building.  
The total amount of cashboxes in NY is CHF 72, which is not material and does not represent a high risk of fraud.

### Recommendation

The reconciliations are necessary to confirm the existence of liquidities. It is essential that the internal controls function even during extraordinary circumstances, as per the COVID-19 pandemic.

### Comments of management

Cashboxes are controlled monthly in Geneva. All cashboxes are centralized in Geneva except the NY office one.

The initial plan was to delegate this responsibility to our new contracting officer who joined IDA team in 2020 and was supposed to start from 1 March 2020 in NY office. She should have overseen those controls under the supervision of the Finance Manager.

The COVID-19 pandemic forced us to close the NY office early March 2020 and our contracting officer has been working with IDA remotely since.

Given the cashbox balance was very low (CHF 72), we decided to exceptionally not perform this reconciliation in 2020.

From 2021, at the reopening of the NY office, our contracting officer will oversee this responsibility.

# Audit Observations, recommendations, measures

## Foreign exchange losses and profits

### Observation

Exchange losses and profits represent significant balances in 2018 and 2019 and are as follows:

Exchange losses:

- ▶ 2019: CHF 158'150
- ▶ 2018: CHF 162'770

Exchange profits:

- ▶ 2019: CHF 60'850
- ▶ 2018: CHF 41'539

### Recommendation

Considering the significant balances of exchange losses and profits recorded, we recommend to set up a cash flow hedging strategy in order to avoid exchange rate fluctuations.

### Comments of management

From 2021 the Exchange losses and profits account will be split between:

- ▶ Translation differences
- ▶ Exchange losses and profits resulting from grant agreements
- ▶ Exchange losses and profits resulting from internal bank transfers
- ▶ Exchange losses and profits resulting from payments of suppliers

This differentiation will contribute to have a finer analysis on the causes explaining exchanges profits and losses; in particular the causes which could be mitigated by IDA, and the ones which are beyond our control.

Finally, we are currently investigating to implement the SAGE module related to cash flow management for Q3/Q4 2021. This module should help us in anticipating which currencies we should buy and sell along the year.

# Audit Observations, recommendations, measures

## Corrected misstatement - Reclassification of creditors temporarily debtors

### Observation

We identified that a part of creditors temporarily debtors was forgotten during the correction previously made by the client.

After we communicated the point to the client, the correction was correctly performed.

- ▶ Total amount of creditors temporarily debtors: CHF 42'450
- ▶ Initial correction: CHF 23'790
- ▶ Final correction: CHF 18'660

Accounting operation made by the client to correct the amount:

Debtors suppliers (debit)	CHF 18'660
Trade payables (credit)	CHF 18'660

### Comments of management

The correction has been made during the audit and the final financial statements audited take into consideration those corrections.

# Audit Observations, recommendations, measures

## Uncorrected misstatement - Overtime and vacation provision

### Observation

Overtime and paid leaves were provisioned for the first time in 2018 following EY recommendations.  
As of 31 December 2019, vacation and overtime provision was solely booked for managers and not all employees.

Therefore, we noted a slight under-valuation of KCHF 9.5 broken down as followed:

- ▶ USA: KCHF 3
- ▶ Geneva: 6.5 KCHF

The adjustment has not been recorded, we consider it as an uncorrected misstatement. However, this has no influence on our audit opinion.

### Recommendation

We recommend to fully provision the amount of overtime and vacation not taken for all employees.

A reconciliation between each employee's balance and the amount to be provisioned could help to easily record the total provision amount at year-end.

### Comments of management

We agree with Ernst and Young finding and we will implement the following regulations during the closing work for 2020 accounts:

- ▶ For non-Directors positions, paid leaves should be at 0 by 31 December 2020. Any exception to the rule should be validated by the Executive Director
- ▶ For Director positions, a maximum balance of 20 days can be provisioned by 31 December 2020.
- ▶ Those leaves will be paid to the employees in 2021 after validation from IDA President and Treasurer.

# 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 KCHF 14 as of 31 December 2019.

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 did not manage to make significant improvement at this level in 2019 and 2020. We consider this is going to take several years and require long term investment in private fundraising.

So far IDA has been successful in diversifying its portfolio of donors. In 2019 IDA developed a long term partnership with the Norwegian Agency for Development Cooperation (NORAD) which will become the 4th IDA largest donor with SIDA, DFAT and FCDO/DFID. In 2020 IDA secured long terms partnerships with DFID/FCDO and SIDA, guaranteeing funding until 2023-24. IDA will keep fundraising and looking for further diversification of its donor's portfolio.

IDA presentation of its annual accounts as per GAAP FER 21 from 2019 onward (2019 exercise to be released in December 2020) will differentiate the deferred income related to core funding with the deferred income related to earmarked funding. Deferred income related to core funding will be registered as long-term liabilities in the balance sheet (equity). Deferred income related to earmarked funding will be registered as short-term liabilities.

Such presentation of IDA accounts will underline the role played by our core donors. Core funding will not fully replace equity but will provide IDA with some financial flexibility.

# 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

With the implementation of the new finance Information System (SAGE) in 2020, the financial advances will be recorded as an asset.

### Comments of management

- ▶ Implemented from 1 January 2020 with SAGE accounting system.



**Thank you!**

