Internal Auditors Report

regarding the

Final Accounts

of

ELSA International 2017/2018

Internal Auditors

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(22 February 2019)

1. Introduction

We, Marek Škultéty and Peter Christian Binau-Hansen, elected Auditors of ELSA International at the International Council meeting in Prague, have audited the Final Accounts of ELSA International 2017/2018 prepared and presented to us by the Treasurer of ELSA International, Elena Maglio.

The audit is covering the financial period from 1 August 2017 until 31 July 2018. The audit has been carried out from 10-11 March 2018 at ELSA International's office in Brussels and by electronic means afterwards regarding the interim period (1 August - 31 January), and also on-site 15-16 September 2018 and via electronic means afterwards regarding the second half of the audited period. However, due to significant delays with the provision of materials necessary for the Audit, the Auditors were unable to provide a reasoned opinion on the relief of Responsibility of the International Board of 2017/2018, nor evaluate the Auditors' report prior to the International Council meeting in Opatija in November 2018. Against this background, the Council decided to postpone voting on the approval of the accounts until further audit was carried out. Therefore, the audit continued via electronic means during January and February 2019.

The Auditors were able to successfully review the Final Accounts submitted to us electronically on 16 November 2018 in terms of their alignment with the audited documentation and bookkeeping (the last updated version of which was received on 22 February 2019. We hereby present our findings.

For further information regarding the delays and missing accounts, we refer the Council to our Statement on 16 November 2018.

2. Regulatory basis

According to Article 9 (1) of the Statutes, the financial year of ELSA runs from the 1 August until the 31 July the following year.

According to Article 9 (4) of the Statutes, the audited Final Accounts covering the full financial year shall be submitted to the Council.

According to Article 9 (5) of the Statutes, the Internal Auditors examine the reliability of the Final accounts per financial year.

According to Article 15 (2) of the Standing Orders, the Internal Auditors shall focus their work on governance, risk and internal control, and summarize their findings and recommendations for improvements in a Report, largely factual in nature. The Report is presented to the Council along with the respective Final Accounts.

According to Article 15 (3) of the Standing Orders, the Internal Auditors shall, upon reviewing the physical financial archive, provide a Certification of the reliability of the accounts, and the legality and regularity of the underlying transactions.

As the ELSA Development Foundation (EDF) is its own legal entity, the Internal Auditors have prepared a separate Report regarding the Final Accounts of EDF.

3. Limitations

This report is based solely on the materials provided to the Auditors by the Treasurer during our on-site audits in Brussels, as well as additional documents, including the finalized accounts, provided to us during the International Council Meeting Opatija, and other materials submitted to the Auditors afterwards.

Thus, this report is limited to the material examined during the process of the audit and the reliability and truthfulness of the explanations and information provided by The International Board.

4. General notes

As was the case with the Interim Accounts, upon the Auditors' arrival for the onsite audit in Brussels on 15-16 September 2018, we were again presented with incomplete material. In spite of the absence of a finalized accounts' document, the physical archive reviewed on-site was once again well-organised.

During the fieldwork, the Auditors were able to inspect bank statements and credit card bills, invoices in and out, receipts, petty cash, claim forms, board meeting minutes, various agreements, grants and other documentation, however, the bookkeeping was incomplete. The presented bookkeeping - further audited off-site - included a profit and loss statement, detailed accounts statement, suppliers and customers list, and a budget fulfillment statement. The Treasurer was available for questions and was ready to assist us in the office during the audit, and during the post-ICM Opatija period in January and February 2019.

The Auditors also held a joint video call session with both the external accountant and the Treasurer for further clarifications.

For the adjustments related to the Accounts done after the mentioned presentation in Opatija, see separate part "Adjustments" in point 7 of this Report, which are added to improve the transparency of the auditing procedure.

4.1 Income

The Income of the financial year 2017/2018 followed the budget set by the Council relatively well. Notable deviations are present in income from Online Advertisements, Synergy (lack of income in both of these areas were highlighted by the Auditors already in the Interim Report) and Grants, which underperformed the expectations due to the reasons explained in the Final Accounts. We would like to highlight positive fundraising results with the Partnership Income and additional income for ELSA Law Schools due to sponsorships (of around 2,300 EUR from the amount). Furthermore, around 5,600 EUR of grant income was missing, as this was not properly deferred during the financial year 2016/2017, and as such became income of the previous term.

4.2 Expenditures

The expenditures of the association as a whole remained mostly in line with the regulations and the allocation set by the Council. The Treasurer showed good measures by for example not utilizing parts of General expenses allocated for office refurbishing, office inventory, general marketing expenses, annual report and representation to compensate for increases in areas such as travels and low liquidity. In terms of project expenses, notable deviations are represented by the absence of a second Synergy, the fact that the planned IFP conference of 20,000 EUR (both income and expense) was not organized, as well as increased STEP IT expenses (for the copyright infringement case which amounted for a significant portion of the STEP IT expense we refer to the Interim accounts) and lower ELSA Law School Administration expenses.

5. Assessment of the financial management

Despite the Accounts not being finalized in due time, the documentation - both digital and physical - and all information provided to us was transparent and satisfactory, therefore in most cases the auditing proceeded smoothly. The Treasurer had a good overview of the booked transactions and was able to answer most questions immediately. During the audit we further noticed the following:

5.1 Claim forms

The claim forms were generally drafted correctly and accompanied by matching receipts. We do not have further findings aside from the transparency improvements that were stated in the Interim Accounts.

5.2 Credit Card Bills

We are generally satisfied with the way the credit card bills were archived and accompanied with the relevant receipts. The largest amounts related to travel tickets were satisfactorily explained by the Treasurer.

5.3 Accounts Payable - Invoices received

The invoices received - as well as the relevant receipts, where applicable, were kept in chronological order and were easy to locate. During the final audit we noticed that the Treasurer implemented our suggestions and improved the quality of notes on the documentation that was not in english. We also observed an outstanding amount of invoices to be at around 27,000 EUR - these included mostly expenses related to the EMCC, which, due to the timing of the competition, we found acceptable.

5.4 Accounts Receivable - Invoices sent

Accounts Payable, represented by the outgoing invoice folder were prepared by area and arranged in a structured manner. We were not satisfied to see that the Accounts Receivable did not decrease during the term, but rather increased - which negatively affects the liquidity of the association. Although we understand that as a non-profit student association it is comparatively more difficult to claim payments from physical and legal persons than it would be the case in for-profit corporations, we consider the outstanding amounts at the end of the term extremely high, over 108,000 EUR, an increase of around 35,000 EUR over the amount in the beginning of the term. While partially being caused by the changes in invoicing deadlines, and deferred revenue (for example freshly invoiced membership fees) we consider this amount to be extremely high. At almost 5 times the total amount present in the bank accounts of ELSA (with the exception of the locked rent deposit account) further increases of amounts owed to ELSA may soon start compromising its ability to fulfill its own financial obligations. We further noticed several invoices belonging to the revenue of the term 2016/2017, which were only invoiced during the term 2017/2018, and of which the corresponding adjustments were made - see below in point 7.

5.5 Bank receipts/statements

The bank statements are automatically added to the accounting programme, and the Treasurer is only required to counter-book the respective income and expenses. The amount of un-matched transactions at the point of the audit has significantly decreased compared to the Interim Audit. Only a few transactions were still not finalized during the fieldwork, which were finalized by the Treasurer afterwards.

5.6 Agreements

We noted that the International Board has started a process of renegotiating and standardizing the agreements with partners, as well as the invoicing timelines. This process was still ongoing at the end of the term, and we approve of these efforts of the International Board, which should bring the much needed structure in the area in this regard. Regarding our remarks on loans to National Groups we discovered no such further cases aside from the ones mentioned in the Interim Audit.

5.7 Board meeting minutes

As per our request from the Interim Audit the the board meeting minutes were presented printed, signed, and reasonably structured, as well as made available in an electronic format. We did not notice any further “unofficial board meeting” references without summaries aside from the ones noted in the Interim Audit. Overall the quality of the minutes was satisfactory.

5.8 Compliance with Financial Strategy 2016-2019

An overview of the Financial Strategy compliance is presented in the Final Accounts. Regarding the general expenses, it can be seen that the ELSA House Expenses are slightly exceeding the planned ranges - which can be explained by lower general expenses in other categories, as the House related expenses otherwise fulfilled the budget expectations by 99.89% - with the rest of expenses being in line with the Strategy. In terms of income the Partnership Income is exceeding the planned ranges - meaning that the focus of the fundraising should be shifted to other sources of income. This is further strengthened by the significantly underperforming advertising and publications income.

5.9. Liquidity

High accounts payable translated into several periods of liquidity problem during the term. Our recommendation from Interim Report to set up a cash flow calendar was not followed. As of the end of the term 2017/2018 the Rent Deposit account was not yet unlocked, and the incumbent Treasurer is investigating possibilities how to receive the additional liquidity boost.

5.10 Petty Cash

We have found only a minimal negative difference in the petty cash versus the accounting value, and given the nature of petty cash in ELSA we can consider this result to be very good.

5.11. Provisions

A full list of provisions is present in the Final Accounts, with half of the amount being represented by provision for the House renovations, which was not exhausted due to limited liquidity and was mostly transferred to the term 2018/2019. Although we understand the circumstances, we do not approve of the practice of not utilizing the available provisions.

5.12 Previous term transactions

We further noted a large amount of transactions belonging to the previous term, which affected the Treasurer’s accounts. Notably, - negative 9,108.10 EUR of general income, and negative 2,829.92 EUR of general expenses, along with positive 2,537.98 EUR of project expenses. The negatives reflect a reversal of income or expenses, which were recognized during the term 2016/2017, but should not have been, and the positives reflect addition of income or expenses that were not recognized. Thus, the previous term transactions decrease the balance of the Audited term by 8,816.16 EUR. In addition, we further noted the mentioned missing deferral of grant revenue from the term 2016/2017 amounting to 5,638.13 EUR. The conclusion is that the balance of the Audited accounts is lower by 14,454.29 EUR due to the transactions that should have been recognized in the term 2016/2017, and did not belong into the Audited term.

5.13. Fixed assets and depreciation

Upon investigating the fixed assets listing we discovered, that the large inventory purchase from the term 2016/2017 was apparently not depreciated. The remaining depreciations were calculated via separate excel tables, and the Treasurer has explained, that the depreciations are generally done by the Accountant. As due to the nature of depreciations this does not seem like a significant cost, and as the term 2016/2017 created a provision for office refurbishing, we decided not to proceed with the corrections in this regard and urge the incumbent Treasurer to clear the issue and account for proper depreciation.

6. Bookkeeping

The quality of bookkeeping was good, with a few exceptions. These consisted mainly of missing or insufficient booking descriptions, unfinished postings, and bookings under wrong accounts, as was the case during the Interim Audit. The Treasurer was able to sufficiently explain all of our inquiries, and to make most of the necessary corrections in this regard during the on-site audit. We further recommended several adjustments during the additional period in February 2019, which were promptly implemented as well - these adjustment are described in point 7 of this Report.

During the audit it was generally not easy to follow the cash trail of transactions, as the bookkeeping is structured in journals, with the bank ledger entries being generally empty, we were however able to check the ledger entries one by one via the corresponding document numbers from the ledgers. Although our recommendation from the Interim Report - to figure out a system of descriptions in the bank ledger bookings - was not implemented, we do not find this to be a major issue.

Overall, the amount of deviations we found was acceptable, and likely caused by the lack of time to finish and double-check the bookkeeping, rather than intent.

7. Adjustments

Several adjustments were made during the period between the presentation of the Final Accounts at ICM Opatija and the ones to be presented at ICM Baku, the Auditors find it necessary to list the adjustments to the accounts and amounts that were already presented. To improve transparency and informational value of the Final Accounts we therefore recommended the following adjustments :

- to split Previous term expenses into Previous term expenses and Previous term Income, in order to properly reflect the transactions not belonging to the audited term, but affecting it financially, especially as these represent a considerable amount (e.g. moving from positive expenses to negative income)
- to add additional explanations to the Final Accounts as per various ambiguous terms such as “regulative account”, and to add all the provisions currently present in the accounting.
- to ensure that the saldo of the budget matches the profit/loss result of the year by adding accounting adjustments under the budget, and including a reference to un-deferred income from 2016/2017 which should have been deferred, and which belongs to 2017/2018
- to relocate a few expense and deferred revenue bookings, where the incorrectness of booking was obvious.

8. Miscellaneous

As was the case with the Interim Accounts, the Auditors were not satisfied with the generally unfinished state of the accounting - causing not only significant delays with the auditing process, but especially with the inability to furnish a finalized Auditors’ Report to be presented in time at the ICM Opatija - especially as the timely preparation of the materials for the Audit was one of our recommendations from the Interim Accounts. We have been given several explanations, as to what were the reasons behind the delays (these can be found summarized in the Interim Auditors Report and our Statement from the 16 November 2018), and ultimately we do not see any reason to doubt, that the reasons behind the delays were other than bad time management and a few unfortunate circumstances.

Furthermore, during the Audit we discovered that the accounts are generally not being “closed” in the accounting system after the end of the term - technically permitting any future treasurer to adjust the accounts of their predecessors. We recommend to the incumbent Treasurer to discuss possibilities of establishing procedures for closing accounting years together with the Accountant.

Last, we discovered that the EDF contributions sent to the accounts of ELSA were used as a temporary liquidity boost for the association before being sent back to the foundation, generating several accounting transactions.

9. Conclusion

Taking into consideration our remarks and recommendations above, we are pleased to inform the Council, that we have found no significant irregularities in the financial management of ELSA International 2017/2018 - with the exception of significant delays with delivering the documentation during the Audit. The documentation and bookkeeping were kept satisfactorily.

Our findings regarding the governance, risk and internal control are summarized above, and based on these findings a set of measures to further improve the processes in the area of financial management has been recommended.

We would like to highlight, that the balance of transactions belonging to the term 2016/2017, but not recognized accounting-wise during that term, along with the missing deferral of grant revenue altogether total to 14,454.29 EUR. This changes the yearly result from a loss of 14,152.23 EUR to a profit of 302.06 EUR when taken into consideration. We leave further discussions on whether the accounts of 2016/2017 and 2017/2018 need to be amended to the Council.

Therefore, fully relying on the documents and explanations provided to us by the Treasurer Elena Maglio we can certify, that the bookkeeping information presented so far in the Final Accounts is reliable, and properly reflects the financial situation of ELSA International 2017/2018 as of the end of the accounting period with an acceptable amount of deviations.

Based on the above, we recommend to the International Council to grant the relief of responsibility to the International Board 2017/2018.

Best regards,

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