



# Internal Audit Committee (IAC)

Meeting 18<sup>th</sup> June, 2014

Meeting Room 8

ITUH Building

## Draft Report

### **Regional Representatives:**

Mike McPherson , Chair (North America/Caribbean)

Yamile Socolovsky (Latin America)

Henry Hendricks (Africa)

Ronnie Smith (Europe)

### **Ex-Officio :**

Fred van Leeuwen, General Secretary

### **Staff in attendance:**

Charlie Lennon, Deputy General Secretary,

Stéphane Ponsard, Senior Coordinator: Finance

### **Apologies for inability to attend this meeting have been received from :**

Susan Hopgood, President

Eva-Lis Siren, Vice-President and Chair of the Finance Committee

Marvie Sagun (Asia-Pacific)

## **1. Introductions**

The chair, MMP, opened the meeting at 11:00.

He welcomed all the members of the IAC and asked the audience to share some exciting moments they had since the last meeting. Everybody shared some professional and private moments from the past 12 months but also expressed some challenges for the future.

New elections in their union or their country, national strikes, implementation of a new collective agreement and the Global campaign (Unite) were put forward as the most exciting moments in 2013/2014.

After this introduction, he proposed looking at the agenda of the day and at the report from the previous meeting.

The following documents were distributed:

- Extract from the EI Constitution and By-Laws (By-law 8)
- Draft report of previous meeting
- Financial statements for the year ended December 31, 2013 compared to 2012
- List of accumulated provisions as at December 31, 2013
- Unite 4 Education campaign, 2013 Budget allocation and expenditure report (for information)
- Unite 4 Education campaign, 2014 Budget allocation and provisional expenditure report (for information)
- Statutory auditor's interim report on the financial statements for the year ended December 31, 2013
- Notes to the audited EI Financial statements
- Financial statements for the year ended December 31, 2013



- Aide memoire of the closing meeting with Auditors in relation to the 2013 Audit (Interim)
- 2013 Regional office accounts (for information)
- Program and Budget 2014 (EB42-05.9)
- Detailed Budget 2014
- Dues payments 2012 2013 2014 as at June 12<sup>th</sup>

## 2. Report of the last meeting

The report was adopted.

The chair asked some update on point 3 of the report regarding legal advice and the reduction of staff.

CL explained that the investigation by the Social inspection seemed to be terminated as we didn't hear from them since we regularised minor issues in 2012.

About the reduction of staff, CL explained that we started a study on the structure of EI's salary scales with an external company to reduce the impact of the incremental salary scales on EI finances in the future. This was agreed with the staff representatives and is ongoing.

The chair confirmed that after the discussion last year on the role of this committee, it was clear that the IAC had to look to the audited financial statements and not into the internal affairs of EI.

He asked CL to start with the presentation of the financial statements.

## 3. Presentation and Review of 2012 Financial statements (CL)

CL presented the audited financial statements of 2013 and provided additional information on the assets and liabilities.

Additional information was given in particular on the accruals/deferred charges, as provisions, and on the cash and deposit in Head office as in the Regional offices as well. CL confirmed that internal procedures are in place to check cash or bank movements.

He explained that the auditors were looking at the integration of the European accounts (ETUCE) into EI's but so far, they continue to be audited and presented separately.

HH noticed that the value of the fixed assets was reduced in 2013 compared to 2012. SP explained that this was due to the fact that "old" investments were written off as their net value was at zero.

On the Income and expenditure report, HH asked if we could also compare expenditure on items from one year to another. CL explained that this was not feasible in many instances as the budget allocated in one year could be significantly different from that for another year.

A document with EI's provisions was included for information as well as two expenditure reports on the Quality 4 Education campaign (Unite). CL mentioned that the campaign was partially subsidised by an external donor. In addition to the 2014 allocation in the budget, a provision of €250,000 was made in 2013 to cover expenditure on the campaign in 2014.



HH raised the question if these financial statements should not be recalled in Annual financial statements. He also suggested to consider adding a subheading “Equities” in the statements. CL and SP explained that the financial statements are a “picture” on a particular day, which was the reason why they were described as Financial statements at 31 December 2013. Both questions were submitted to the auditor in the afternoon meeting for confirmation.

Auditor fees were included in the heading “Insurances and Legal fees”.

CL announced that EI will send out letters to audit companies in the near future as Congress decided to put the audit out to tender every four years.

The IAC believes that only a few could do the job. Due to the complexity and international nature of EI’s business, letters should be sent to the “Big 4” only, at least initially.

#### **4. Presentation of Auditors’ Report for 2013 (Benjamin Tonoli)**

BT explained how E&Y conducted the audit.

A first visit in the head office was planned in November. During this visit, they check mainly EI procedures. Who is authorised to sign orders or bills, are the rules respected, etc.

A second visit is planned in February to check the records.

Risk evaluation and comparison with previous year (E&Y Global methodology) are some of the tools used during the audit.

He presented the annual accounts starting with the assets.

He explained that for fixed assets, for example, they reconcile the bookings with the invoices and the depreciation with the valuation rules. Bank confirmation (third party information) is requested from all “EI” banks once a year to check the end of year balance. Currency fluctuations on accounts in foreign currencies are recorded at the end of the year. The amount under Accounts receivable is mainly composed of money owned by EI from ETUCE, the EI Foundation and the EI Research Institute. As E&Y does the audit of these too, the reconciliation is based on information they already have. Salaries are reconciled with the yearly statement received from the payroll office (Partena).

On liabilities, he explained that the “Reserves” can only increase or decrease based on the net result of a financial year.

The changes in the reserves are at the discretion of the ‘shareholders’ of EI (the EXBO).

If EI would stop its activities, temporarily or definitely, and as a consequence dismiss its personnel, the amount currently booked under reserves would not suffice. Therefore, E&Y advice was to maintain a substantial balance and, if possible, to build up the reserve balance in future.

Solidarity funds are composed of EI’s yearly allocation (0.7% of dues income) and from funds collected by EI to help member organisations affected for example by a Tsunami, an earthquake, a typhoon, etc.

Extra-budgetary accounts are funds received from donors to implement activities or projects. As they are usually based on contracts, the audit will start with a check of the contract. Then the audit will look at the invoices, bank statements and other supporting documents.

EI Regional accounts are checked with the reports received from the region. He explained that they apply some procedures to reconcile the cash disbursements. During the audit, they go through the expenses and check the receipts.

Finally, he said that they verify if income and expenditure are recorded on the correct year. Some expenditure, that occurs once every two or four year, is recorded under provisions.



On the question if the Financial statement could be renamed an Annual Financial statement, he confirmed what CL and SP said before.

The possibility to add a subheading “Equities” in the following financial statements was considered but the auditor and CL explained that it would imply that the 2011, 2012 and 2013 audited accounts should be revised. So it was decided not to implement this change.

The auditor confirmed that they were appointed for 4 years and that the current report was an interim report, the final report being the one to be presented at Congress.

The chair thanked Benjamin Tonoli for his presentation.

#### **5. Regional office accounts (CL)**

It was decided not to go in detail as it was given for information.

#### **6. Report on Financial Outlook 2014 – 2015 (CL)**

##### **Budget 2014**

##### **Membership and projections of Dues Income**

##### **Projections for increasing costs**

The chair raised the issue of a membership drop in the States.

He mentioned that the “agency fees”, that is an obligation to pay fees to a union, could be abolished by the Supreme Court. This could influence NEA’s income in future and so EI’s.

FVL explained that 80% of EI’s income comes from about 25 organisations.

In 2014, if necessary, EI was authorised by the Board to use part of the reserves to support the Unite campaign.

In the autumn of 2014, FVL and CL will meet the 16 largest organisations to see what can be done on income between 2016 and 2019. This meeting does not take decisions but clarifies the situation and can advise the Board on how to build up the P&B for the next 4 years.

Discussions with staff representatives are still in process to review the incremental scales. Staff salary costs are not sustainable, without adjusting the scales.

#### **7. Preparation of the Report of the Internal Audit committee on the EI Financial Statements 2011-2014**

The IAC needs to report to the Congress in 2015.

The chair should present the IAC report during a 10 to 15 minutes presentation. This should be done after the external audit presentation by E&Y.

He suggested mentioning the following points in the presentation:

- why were we appointed,
- what did we do,
- what did we look at,
- which questions did we ask,
- what EI staff did, what the auditors did, say that the collaboration with staff and auditor went well, etc



This will confirm that the committee did Due Diligence!

The IAC should present a written report too. This should highlight what was mentioned in the minutes. The Chair, CL and SP will work on a draft report.

#### **8. Date next meeting**

12 & 13 March 2015 (2 weeks before EXBO meeting)  
The IAC will make an intermediate report to the Board.

#### **9. Any Other Relevant Business**

Congress Ottawa: Visa issue

CL explained that we could consider changing the location of the Congress if we (our delegates) encounter the same problems on VISA applications than we had with the Global Education Conference in Montréal. If so, the Board could decide in March 2015 if the Congress needs to be de-located. This will have major financial impact on the organisation of the Congress but on the other hand, it is unacceptable that a significant number of delegates couldn't attend Congress.

FVL explained that we are currently working with some donors/foundations. That could reduce the over expenditure if they can provide additional support to assist delegates.

The chair thanked the IAC members, and also the other participants, for the information and explanations received.

Meeting adjourned at 16:15.