



To Mr. Philip Lynch, Executive Director of the ISHR
To Ms. Kristin Slesazeck, Project Manager at Bread for the World

ISHR
**Management Letter to the
Financial Assessment
2017**

Fabel, Werner & Schnittke GmbH

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Dear Ms. Slesazeck, dear Mr. Lynch,

From 28 November to 1 December 2017 we conducted a financial and organisational assessment on the premises of the ISHR in Geneva. The atmosphere during our review was friendly and cooperative. We were provided with all necessary information and documentation in a timely manner. The different aspects of financial management were openly discussed with the management of the ISHR.

The accounting system and the financial reporting of the ISHR are well established and of a good quality. The project management system appears adequate to a non-profit organisation with multiple donors, programmes and projects. Internal procedures are highly developed and codified in internal regulations.

In the following sections we have some additional comments and recommendations with regard to internal controls, ISHR policies, accounting, financial sustainability and external certification.



1. Contributions in Kind

Observation

The ISHR receives pro bono contributions from international law firms. The firms, for example, prepared studies on human rights legislation in different countries, without charging a price to the ISHR. These pro bono contributions are not reflected in the financial statements of the ISHR.

Impact

The income and expenses of the ISHR are undervalued by the amount of pro bono contributions.

Recommendation

According to international practice of non-profit accounting contributions in kind should be reflected in the financial statements, if all of the following three conditions are met:

- 1) The services are provided by professionals.
- 2) The provision of services requires specialised skills.
- 3) The services would otherwise have to be purchased.

It seems that these conditions are fulfilled, if a law firm prepares a study on human rights legislation for the ISHR. We thus recommend reflecting the value of contributions as income and expense in the ISHR's financial statements.

Management Comment

ISHR will work with our current external auditor to examine the recommendation to determine whether the threshold criteria are met as, in most circumstances, we would not seek the legal services in question if they were not provided pro bono (in other words, we would not otherwise pay for the services). The legal services provided strengthen our advocacy work, but are not essential to it. ISHR also notes that, while not included in our financial statements, the pro bono contributions of law firms and the commercial thereof are included in our annual report.



2. Inventory List

Observation

The ISHR keeps a list of computer equipment. This list, which was prepared by the external service provider “IT Guys”, does not indicate the acquisition costs and it does not include other assets such as furniture, cameras, projector and other equipment.

There is no physical stock-taking of assets by a commission of employees.

Impact

There is a risk that it would remain unnoticed if assets of the ISHR were lost or stolen.

Recommendation

We recommend preparing an inventory list that includes all assets of the ISHR such as furniture, equipment and computers above a certain ceiling amount. The list should indicate: number, acquisition date, description, quantity, acquisition costs, location, and responsible person. A commission of two or three employees should control the physical existence of the assets in annual intervals and document this by their signatures.

Management Comment

ISHR accepts this recommendation and will update the current asset list as required and perform an annual inventory count. It should be noted that most of ISHR’s assets are the items currently listed. Other furniture that were in kind support/donations were not listed but could be incorporated for the yearly transparency and accountability report.



3. Bank and Cash Reconciliations

Observation

The Finance Officer prepares monthly bank reconciliations comparing the balances of the bank statements with the balances in the accounting records. The bank reconciliations are signed by the Finance Officer, but not by a second employee as a sign of control.

The Finance Officer explained that he also prepared a cash reconciliation in monthly or bimonthly intervals. However, these cash reconciliations are not documented in writing.

Impact

The four-eye principle is not adhered to, if the employee initiating bank transactions also controls the bank balances. The separation of duties in internal control requires a second employee to be involved.

Recommendation

We recommend that not only the Finance Officer signs the monthly bank reconciliations, but that the Finance Manager reviews the bank reconciliations regularly, in monthly or quarterly intervals, and countersigns them. The same procedure should be applied for cash reconciliations.

Management Comment

ISHR has implemented an effective segregation of duties between the Finance Officer, Finance Manager, and the Director. The bank reconciliations are reviewed monthly and bank movements are tracked on a daily basis and also to monitor cash-flow. Additionally, the changes in the financial statements and balances are reviewed on a monthly basis and in detail on a quarterly basis with annotated responses. Our current and previous external auditors did not consider the lack of signature on the bank reconciliations as a potential risk due to our established internal control but were satisfied by the yearly certification. However, ISHR will continue to assess and strengthen internal controls to the extent possible.



On the petty cash reconciliation, ISHR accepts this recommendation. The Director approves all petty cash transactions or withdrawal from our current bank account (a draft letter with two signatories are required for withdrawals). Upon receipt of the petty cash, the recipient is required to sign-off and this in turn is approved by either the relevant budget holder or Director. ISHR believes it will be useful and effective to have the cash reconciliations signed off to ensure its global movement on a quarterly basis compared to the current yearly basis process.



4. Benchmark for Reserves

Observation

In the Strategic Framework the ISHR defined the objective that the reserves should be in a range between 25 – 40 % of core operating expenses by 2020. However, it is not specified how the basis of “core operating expenses” has to be calculated.

Impact

The percentage of reserves cannot be unequivocally determined as the calculation basis is unclear. It is thus difficult to measure whether the envisaged objective has been met or not.

Recommendation

We recommend determining a clear basis for calculating the percentage of reserves. It should be easy to deduct this figure from the financial statements, e.g. as a percentage of revenues or a percentage of expenses, without additional side calculations. As an alternative, a fixed amount of planned reserves, e.g. CHF 500,000, could be defined.

Management Comment

ISHR accepts this recommendation and defines “core operating expenses” as being the sum of our operating, human resource and core programme costs. Core operating expenses do not include programme costs with which there is an associated earmarked budget. Each of these figures is ascertainable from our budget.



5. Accounting Policy

Observation

The ISHR does not have an accounting policy defining the accounting principles applied to the different classes of accounts. For example, grants are booked as receivables at the moment of signing the grant contract. The acquisition costs of assets are booked as an expense at the moment of purchase and not as fixed assets. This accounting practice is not codified in an internal accounting policy.

Impact

An accounting policy ensures that all finance staff applies the same accounting principles and that there is continuity in financial reporting in the case of staff rotation.

Recommendation

We recommend preparing an accounting policy. The policy should outline the accounting principles for financial reporting in line with Swiss GAAP.

Management Comment

ISHR accepts this recommendation. The current Financial Rules and Regulations (FRR) include some aspects of accounting principles but will be reviewed to be more comprehensive in this regard.



6. Procurement Procedures

Observation

According to the Financial Rules and Regulations procurement procedures have to be applied for the purchase of supplies and services, but the policy does not indicate a ceiling amount.

In the project funded by Bread for the World different offers were available for purchases above EUR 410 (travel costs, hotel accommodation). However, the respective decisions were not documented in internal minutes of tender selection.

Impact

The procurement requirements in the Financial Rules and Regulations remain weak, if they are not accompanied by a clearly defined ceiling amount. The criteria for the selection of the most advantageous offer are not transparent to external parties, if they are not documented in internal minutes of tender selection.

Recommendation

We recommend documenting the selection criteria and procedures in internal minutes of tender selection.

The ceiling amount above which tender procedures have to be conducted should be specified in the Financial Rules and Regulations.

Management Comment

ISHR accepts this recommendation in part. ISHR will continue to ensure procurement is competitive, objective, efficient and provides both quality and value for money. ISHR does not propose to document the reasons for every procurement decision as we consider that this would impose an administrative cost that is disproportionate in circumstances where neither this nor any previous independent audits have identified any problematic procurement.



7. Anti-Fraud and Anti-Corruption Policy

Observation

Conflicts of interest are mentioned in article 10.2 of the Personnel Policy. However, the ISHR has not issued an Anti-Fraud and Anti-Corruption policy so far.

Impact

The ISHR is carrying out activities in countries like the Democratic Republic of Congo, which are known for a high risk of fraud and corruption. An Anti-Fraud and Anti-Corruption Policy would sensitise the staff and partners of the ISHR for the detection and prevention of fraud and corruption.

Recommendation

The management of the ISHR could consider issuing an Anti-Fraud and Anti-Corruption Policy. This policy should define the basic principles, outline the consequences of fraud and corruption, determine the responsibilities and procedures for reporting and investigation as well as prescribe the sanctions and legal actions to be taken in the case that fraud or corruption occurred.

Management Comment

ISHR accepts this recommendation. Different aspects of Anti-fraud and Anti-Corruption Policy have been included in different ISHR internal policies. ISHR will review these policies to identify any gaps and whether an overarching policy is the most appropriate response.



8. ZEW0 Certification

Observation

The ISHR does not have the ZEW0 certificate. The most widely accepted quality standards in Switzerland for non-profit organisations are the so-called ZEW0 standards, comparable to the DZI Spendensiegel (seal of approval for donations) in Germany. The 21 ZEW0 standards go beyond the accounting standards and also address other topics such as integrity, ethical fundraising, remuneration, governance, reserves, internal controls or transparency.

Impact

One of the objectives of the ISHR's fundraising strategy is to secure new donors in Switzerland. It would increase ISHR's reputation among Swiss donors and improve its fundraising opportunities, if the organisation was accredited by ZEW0. The organisation could use the certificate for its donation campaigns and applications sent to donors.

Recommendation

The accounting, financial reporting and project management of the ISHR have a good quality. The internal procedures are highly developed. It should be possible for the ISHR to obtain the ZEW0 certificate. The management might consider applying for the certificate and starting the certification process.



Management Comment

ISHR does not currently intend to seek the ZEW accreditation. Our annual income from private donors in Switzerland is inferior to CHF 10,000. We don't currently, and don't imminently intend to, target appeals at the broader public in Switzerland which is when such accreditation may be useful.

München, 8 December 2017

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