

basis



BASIS AUDIT REPORT

2020/2021

Prepared by: The Audit Committee of 2021/2022

Table of Content:

Cover page	00
Table of Content	01
Objectives	01
Assets	02
Liabilities	04
Equity	04
Income and expenses	04
Summary of results and final recommendations	06

I. Objectives

1. You have asked us to audit the BASIS financial statements for the year ended 31 May 2021, which comprise:
 - a. The statement of financial position; and
 - b. The income statement.
2. Both were provided as part of the “Result and Balance of all Ledgers file”, which we understand is produced by BASIS’s new accounting software.
3. Separately, you have asked us to provide additional advice as to BASIS’s financial management and operational processes in the context of the foundational elements that constitute good practices of corporate governance.
4. For ease of reference, we have set out our findings for each ledger, along with analysis and recommendations as to how those balances are managed, together below. There is an additional section outlining the overall situation basis faces and recommendations that reflect the constraints of the organization.

II. Assets

i. Cash – balances at the end of the period

5. Per the statement of financial position for the year ended 31 May 2021, BASIS had EUR 15,360.15 in cash across the following bank accounts:
 - a. ING: EUR 13,864.46
 - b. Bunq: EUR 84.38
6. BASIS also holds a cash balance of EUR 1,411.81, separate to the above bank accounts.
7. While we have been able to tie the above bank balances back to the financial statement extracts provided, we note that the opening balances in the statement of financial position for the period ended 31 May 2021 does not reconcile to the closing balance in the statement of financial position for the period ended 31 May 2020.
8. However, we note the reconciliation performed by the audit team in the previous financial year and note that the closing balances do align to the opening balances in the current period once that reconciliation had been performed.
9. We have not however been able to test the balance of the cash held at the end of the period. We note that management have represented that cash is not typically held by the association, the policy being for relevant payments to be made from the main ING account (and from the Bunq account only where MasterCard is required), and that this balance has arisen as a result of an historical issue.
10. **We have not been able to confirm the existence of this cash balance. Noting that this balance was similarly unresolved at the end of the last financial period, to the extent that this is a receivable and not physical cash held, we recommend that this be removed from the statement of financial position.**

ii. Cash – financial management and recommendations

11. While we have been able to reconcile the amounts disclosed in the financial statements to the bank statements provided, we note a number of concerns as to BASIS's cash management policy.
12. We note that the current policy is such that all payments must be authorised by the Treasurer who, although informs and discusses payment requests with the Board, has sole authority to authorise payments. The respective provision in the policy manual stipulating a clear threshold for certain typed of payments can be classified as effective in its design, yet a lack of application in practices leads to a lack of control.
13. Generally, we understand that these payments are not made to third-party suppliers/ to pay for expenses directly, if these are not a direct invoice or board expense. Rather, we understand that the various Committees will propose a budget at the start of the financial year, incur expenses themselves, and be reimbursed for those expenses via BASIS. It is that reimbursement that the Treasurer authorises, subject to receipts being received/ expenditure being deemed legitimate.
14. We consider this policy in its current form to be a significant shortcoming in BASIS's accounting and financial management responsibility. Specifically, we note:
 - a. While Committee reimbursement requests must be authorised by the Treasurer, there appear to be no safeguards in place to oversee the Treasurer's access to those accounts.
 - b. Actual transfer of cash to the Committee's to reimburse expense (i.e. no secondary review and approval for actual amounts transferred, once authorisation has been granted by the Treasurer).
 - c. In addition, there appear to be no controls or safeguards in place as to who has access to the various BASIS bank accounts, nor is there any process to ensure that access to those accounts is withdrawn at the end of the relevant period.
15. Therefore, we make the following recommendations:
 - a. For cash management and the approval of expenses:
 - i. Once requests for reimbursements are received from the Committee's, and subject to those requests being valid and holding sufficient evidence to support the expense claim, the request should be considered by the Treasurer;
 - ii. This request should be made as part of an official expense form, which should be clearly signed by the Treasurer and documented with supporting invoices;
 - iii. At the point payment is to be made, the Treasurer along with another Board member should review the payment to ensure the values are accurate and that payment is being made to an appropriate account;
 - iv. Once the reimbursement has been made, confirmation should be documented along with the expense request and supporting invoices;
 - v. The Treasurer should provide the Board with periodic updates as to expenses approved in the relevant period;
 - vi. We do not recommend that cash be held by any individual. Where cash is received by an individual, it should be declared immediately to the Board and deposited in the BASIS bank account by the end of the next working day. The Board should follow up on this cash amount at the following Board meeting to confirm that the amount has been deposited and proof of this obtained. This should be documented clearly in the minutes of that Board meeting.

- b. For access to bank accounts:
 - i. As part of the transition between Boards, access to the relevant bank accounts should be withdrawn for outgoing board members and granted to incoming board members.
 - ii. We recommend limiting access to the bank accounts to:
 - 1. The Treasurer;
 - 2. The President;
 - 3. The Vice-President; and
 - 4. A member of the Advisory board.
 - iii. Who has access to each bank account should be clearly documented including when and how they received access.
 - iv. In addition, access details should never be shared between members of the board or other authorized members who retained access. Rather access should be granted using individual accounts.
 - v. A new position of transition officers should be established that ensures, that all accounts are handed over at the respective end of the term and access to old board members is revoked. Our spot check of these account privileges at the start of the audit highlighted that several board members retained access significantly after their term had ended. This member will also be responsible to document any transactions that need to be made in the handover, to make the process more transparent and easier for the audit committee to verify in the future.

Inventory

- 16. No inventory was held during the period.
- 17. The fact that no inventory was held during the period should be regarded as highly unlikely, as BASIS has purchased or obtained a plethora of items during the past board years and invoices indicate this to be the case for the audited year.
- 18. Therefore, we recommend conducting a new inventory of all inventory and other assets held by the association that surpass an defined threshold. This should be carried out yearly at the end of the board year and should be documented.

Liabilities

- 19. No liabilities were disclosed during the period.

Equity

Association equity

- 20. The equity balance is the credit balance against cash held during the period. Subject to our comments regarding the cash balances disclosed at the end of the period, we have no further comments as to this account.

Income and Expenses

- 21. We note that both the Income and Expense accounts include “Internal Transfer[s]” and “Accidental Charges”. These balances contra each other and net to nil, and therefore do not impact the net income position for the period.

22. However, we nonetheless recommend that these amounts be excluded from the final balances disclosed in the financial statements at the end of the period (otherwise, both income and expenses appear artificially inflated).
23. Similarly, the Board may wish to consider disclosing “Refunds” and “Other” income separately to general income received by the Association in respect of its operational activities. This will provide a clearer figure for actual income received.
24. We have conducted a spot check of approximately 30 transactions throughout the financial year, to verify the validity of expenses. In general, it should be stated that generally all documentation reviewed can be described as severely lacking in detail and is not understandable to an external third party. This poses significant threats, as the nature of these payments is unclear.
25. As a result of the conducted spot check, the treasurer was asked several follow-up questions to outline the nature of the expense and outstanding questions regarding the nature or lack of documentation. In general, the outstanding questions and responses can be clustered into the following categories: Lack of documentation due to corrective bookings or payment from the previous year, documentation being retained at a different location and only transfer evidence being present no matching invoices.
26. Specifically for income:
 - a. We recommend that for each BASIS project (i.e. activity, event, promotion and so forth, collectively “Event”), a folder be kept that maintains a record of:
 - i. Income generated against that Event; and
 - ii. Invoices issued by BASIS in relation to that event including transfer receipts, where appropriate.
27. Specifically for expenses:
 - a. We note that there does not appear to be a consistently applied policy for the receipt and retention of documentation supporting Association expenses. This is a clear shortfall and should be remedied immediately. Moreover, the lack of proper documentation in one central place including invoices and transfer receipts makes it nearly impossible for an external third party to verify the validity and nature of any expense.
 - b. We recommend that for each Event, a folder be kept that maintains a record of:
 - i. That Event being authorised;
 - ii. Expenses relating to that event having the appropriate documentation, including:
 1. A receipt/ invoice that is detailed enough for an unrelated third party to understand the nature of the expense, this is currently not the case;
 2. A delivery note where goods are concerned or a memo that respective service were provided, this could also be provided by the committee, yet the respective signee hold responsibility that the goods or services were provided ;
 3. An approved/ rejected expense form; and
 4. Proof of reimbursement being made. If the committee has paid for the expense themselves (i.e. the committee received an invoice, paid with own funds and reimbursed from personal bank accounts, the invoice and evidence of money transferred needs to be retained).
 - iii. These records should be held during the course of the financial year and transferred to a separate repository at the end of the Board’s tenure. Ideally,

the invoice and transfer receipt are retained in the accounting software and the other documentation in a separate repository.

- c. We also recommend that where a gift is purchased (whether for a BASIS member or a third-party), that approval for that gift be documented at Board level and similarly held on file as outlined above.

A clear limit on the value of such gifts should be documented in BASIS's financial management policy/policy manual.

Summary of results and final recommendations

28. In general, it should be stated, that the audit has not provided any tangible evidence that would suggest a fraudulent retrieval of funds.
29. There is an inherent lack of documentation of payment events and general policies relating to the accounting of the organization. Invoices and transaction receipts are used interchangeably and are not documented in a stringent manner. This leaves **room** both for **manual error** and **fraudulent activities**. The **accounting must** be such that it can **provide** an (expert) third party with an overview of the **transactions** and the **situation** of the association **within a reasonable period of time**. The individual transactions must be able to be traced in their origin and processing without any gaps. Considering the information and documentation received, **this is not the case**.
30. The lack of proper closing of previous financial years, the fact that transactions were carried over from one year to another and lack of documentation, **does not allow for a reasonable audit of the financial statement**.
31. Considering the outlined in 29. and 30., we therefore **do not recommend releasing the Treasurer from their responsibilities and accountability**.
32. It should also be noted that the discrepancies outlined in the closing/opening of previous financial years place doubt on the accuracy of previous audits conducted.
33. We would like to **actively sound the alarm** on the overall practices of BASIS accounting and finances, as we regard the current state as **greatly insufficient for an organisation of this size** and regard it as a **substantial threat to the association**. Considering the loss of financial resources in the current fiscal year, due to the down payments for the first-years-weekend being lost, further shortcomings in the governance and accounting of BASIS could lead to the **insolvency** and/or bankruptcy of the association.
34. It is even more alarming, that this fact has been pointed out in the past audit committees report, which was submitted on December 4th 2020, to the current BASIS Board and **no meaningful remedial action has been taken**. The report outlines that "there is poor oversight and regulation of the finances" and tht BASIS is at a point "where the financial system needs to be restructured and formally regulated to avoid any possible future issues".
35. We have found similar deeply routed issues in the financial year subject to this audit. The **lack follow-ups** and **lack of measures** to mitigate these control gaps, **calls for immediate action**.
36. We would like to recommend that the General Assembly of BASIS uses its vast power to introduce a committee with a high degree of oversight and power, to tackle this issue in the upcoming year. They will hold the duty to develop measures from the audit reports and ensure these are followed up on. The function would cover the traditional 3rd line of defence and work closely with the audit committee. The General Assembly should consider also giving sanction

ability, if the board fails to follow up and introduce mitigating measures. We recommend this organization to be comprised of members of the board, the committees, the advisory board, and subject-matter experts (that are external to the organization).