



Report of the Auditors Committee of JEF Europe for the financial year 2021, done remotely on 11 November 2022

To: Federal Committee (FC) of the Young European Federalists (JEF)

Cc: JEF Executive Board (EB), JEF Secretariat

From: JEF Auditors Committee
(Emilia Chehtova, Patrick L. von Wildenradt, Germain Jacquinot)

I. General Information

We, the Auditors Committee, **have checked the following:**

- The financial statements of JEF Europe regarding the financial year 2021,
- The profit and loss statement of 2021,
- The history of the analytical accounts of 2021 (via Yuki access),
- The detailed Balance sheet for 2021,
- Compendium of ongoing and applied projects,
- Finances per project - execution table,
- Staff costs 2021 table,
- Membership fee overview,
- Report of the Credentials Committee 2022,
- Commission's final evaluation report and final payment letter - project "....."
- Independent Report of Factual Findings on Final Financial Report - Type II on costs claimed under a Grant Agreement/Decision financed under ,

The audit was performed remotely based on the documents provided by the Secretary General. The Auditors Committee represented by Emilia Chehtova, Patrick L. von Wildenradt, and Germain Jacquinot, reviewed the documents and requested further information on the following matters:

- Yuki accounting tool (online access)
- Master sheet table Financial Oversight - draft
- IMPACT Spendings & budget
- Staff cost
- Internal financial procedures

The Auditors Committee followed-up on its findings with the Treasurer Robin Murdy and the Secretary General of JEF, Judit Lantai. The Auditors Committee was therefore able to get a comprehensive overview of the financial state of the organisation, after which the internal audit report was closed and handed over to the Federal Committee for the closing of the

financial year 2021.

II. New observations and recommendations

1. With the recovery from the Covid-19 pandemic, the comparability with previous financial years (FYs) of JEF is improving as the physical meetings and cross-border activities are recovered. Overall, this situation resulted in an increase of the cost in comparison with the FY 2020 - especially regarding travel and project costs.
2. The financial year 2021 was closed with a loss of EUR 52.508,03 (compared to a surplus of EUR 60.771 in 2020). This results in a negative result to be carried forward of EUR 18.511.
3. The Auditors view this development (also in view of the 2021 positive result) with concern. The liquidity and solvency situation has to be carefully monitored. The total equity has decreased from its 2021 sensible level, and JEF does not have an extensive reserve to rely on. In the coming years, the EB should pay attention to keep the equity at a roughly constant level (in the multiple-year average) in order to still qualify for grants, but at the same time not get into financial troubles.
4. The Auditors Committee faced major difficulties in gaining a full understanding of all the ongoing projects and grants for a second consecutive year. There is no comprehensive overview allowing comparison of the budget, the actual expenses, respectively incomes and their assignment to projects/grants. While the assignment is done (in Yuki), there is no overview made available to the EB or to the Auditors. We thus strongly urge the EB and/or the Secretariat to present such data to the FC. The Auditors already commented on this issue in the 2020 and 2021 Internal Audit reports. However, the auditors also note that the Secretary General is working on improving the financial overview of the ongoing projects etc., and the Auditors Committee is happy to assist with further guidance on how to improve the financial overview.
5. Due to the increased number and complexity of ongoing and finalised projects, the Auditors Committee would need to engage with the Secretariat as a follow-up exercise under the annual internal audit exercise to provide any meaningful recommendations and assurance on the reviewed project work, as it has not been possible to fully finalise the audit under the current time frame.

The updated budget approved by the FC in spring 2022 amounted to a total turnover of EUR 353'820.00. The actual turnover of the financial year 2021 according to the ledger amounted to EUR 693'711. Under the largest grant (operating grant under the Europe for Citizens Programme), costs of EUR 295'815.23 were claimed in 2020 and costs of EUR 349'892 in 2021 for the operating grant under Citizens, Equality, Rights and Values Programme (CERV) with some 18 % increase.

The auditors therefore urge the Secretariat to make full use of the possibilities of Yuki by setting up a two-dimensional accounting, with general ledger accounts in

one dimension and separate cost centres for each grant/project in the other dimension. This allows the separation of project incomes and costs from those of the organisation itself and also provides a much better overview of the various projects. If the accounting tool will not be able to provide such modules, it is recommended to explore other software solutions offering architecture that can allow two dimensional accounting. Any new accounting software should ensure comparability and traceability of data introduced from the previous one.

6. The budget execution of the Operating grant under the CERV Programme - the only grant for which we gained full insight into the actually reported costs - was well-implemented with a full absorption of the grant - EUR 350'082.61 out of EUR 313'800.00. However, the Auditors Committee would draw the attention to recommendation number 14 of this report in relation to the Commission's operating grant.

Description of the audit finding: The total budget estimated an expense of EUR 313'800. According to the reporting, JEF has spent EUR 36'092 more. As the maximum cost amount is capped, the auditors strongly recommend that a stricter approach is taken on the expenditures and the planning of their execution so that the costs will not exceed or exceed to minimum the planned budget costs.

7. There is a continuous trend of decrease of the liquidity at the year-end closing, and in 2021 the decrease is 61% compared to 2022. The Auditors notice this trend with a concern and call for vigilance on potential future actions impacting the liquidity in a negative direction. This is a sign for the need of better planning of the liquidity and the cash flows and some strategic overview giving understanding of potential liquidity shortfalls.
8. Several cost/income accounts of the ledger were removed and introduced in the financial years 2019 to the financial year 2020 and the same again from 2020 to 2021. The Auditors Committee views this practice with some concern and appeals for it to be reconsidered, as it becomes an obstacle to draw meaningful comparisons between financial years. It violates one of the main accounting principles, in particular the Consistency Principle, that similar financial movements are booked the same way (lack of consistency of the accounting record in an organisation makes its long-term financial results extremely difficult to discern).
9. The Auditors advise the Secretariat to consult with them over the reporting practice for future earnings through subletting the office space. The Auditors express concern for a second consecutive year whether it is accepted to count such earnings as a co-financing part of the operating grant. The current practice bears the risk of funds allocated through grants being partly claimed back later on.
10. The Auditors advise the Secretariat to reconsider the inclusion of Partena corrections as part of the co-financing of the grant and receive impartial expert opinion whether this is acceptable under the principles of the operating grant. The current practice bears the risk of funds allocated through grants being partly

claimed back later on.

11. The Auditors observe with some concern the regular corrections on staff costs stemming from errors in the management of the payroll on the side of the service provider (Partena). There is a ground for improvement or alternative service provider to be considered.
12. FY 2021 brought a 1% decrease of the overall revenue from membership fees. The Auditors note with satisfaction the overall 1% member increase and the increase of the membership numbers in numerous sections. The Committee calls for additional measures to support the campaigning of the sections to recruit new members in the post-Covid Europe. In this particular situation, it is notable that a few sections managed to increase their capacity with new members, e.g. JEF Denmark, JEF Norway, JEF Finland, JEF Italy and JEF Malta in consecutive years. It is recommended that special focus is given by the TF Capacity Building to the exchange of best practices in order to support the sections who are suffering membership losses.
13. With regards to the execution of the operating grant from the European Commission, the members of the Audit Committee noticed that the threshold for overspending individual budget lines established by the grant rules was not met in the project execution. The overall incurred costs under the project also exceeded the original project budget by EUR 36'282,61 which resulted in a difference not being reimbursed to JEF and thus additional spending on JEF's own funds. This led to higher self-financing costs. The Committee calls for strict monitoring during project execution of the rules established for specific grants, especially those resulting in financial and budgetary limits and thresholds.
14. The external auditor of the Operating Grant addresses the same technical issue (regarding structural reduction for social security) multiple times in a row. The Auditors Committee urges the Secretariat to implement the necessary correction for the future. The allocation in terms of percentage of full-time and part-time staff seems to be in accordance with what happened in the past, but attention should be paid that the percentages are reflecting the real contribution to concrete projects, especially in view of the multiple projects being implemented simultaneously.
15. The auditors note that the external audit for the overall JEF finances (not linked to a specific grant) was not performed for FY 2020 and FY 2021. The Committee finds that it could be a concern for two reasons. First, the external audit is ensuring accuracy of the accounting records and compliance with national laws and regulations. Secondly, an external audit is required in some countries and by some bodies to qualify for grants. By not getting an external audit carried out, JEF might exclude itself from applying for some grants. However, the consideration of course has to be linked to the costs of getting an audit conducted.
16. The Internal Auditors Committee recommends the timely development and implementation of a finances master sheet proposed by the Secretary General.

17. The Committee endorses the ongoing practice of project-policy management participation of Executive Board (EB) Members and would like to call for broader engagement of the EB and even FC members in the relevant ongoing projects and policy work related to them.

III. Observations regarding the follow-up of the recommendations noted in the Auditors Committee's Report of 2021 (concerning the financial year 2020)

The following points have been examined:

- The Committee noted with satisfaction that there is a clear and sufficient segregation of duties in relation to financial dispositions and payments. The “Work Regulations” document was adopted and implemented in 2020. However, the Committee would like to stress the importance of the document to be updated at least annually in order for it to stay relevant.
- The Auditors welcome the positive development of sustaining the significant decrease of the number of cases where JEF staff had to cover expenses related to the organisation’s activities and then be reimbursed for it (as noted by the Auditors Committee also for the Financial Year 2018).
- The Secretariat and especially the current Secretary General have been continuously very active in developing new projects and also exploring new funding opportunities. The auditors believe that developing own resources and diversification of the funding sources of the organisation is a healthy approach to ensuring the sustainability of the organisation in the long term. It could also be considered whether the membership fee should be increased, now that it has been stable at 2 Euro per member since 2009.
- The Auditors Committee notes with satisfaction that the payment of membership fees in a timely manner has significantly improved compared to previous years, mainly due to the preparations for the Online Congress in 2022 and an extra effort done by the Treasurer and the Secretariat. There are only five member sections that have not paid the membership fee in 2022.

The following points are still outstanding and the auditors reiterate their recommendations:

1. The auditors recommended making the Budget execution (amount spent, received and compared to budget) available to the EB; as described in the financial guidelines this should be available on a monthly basis and provided to the Federal Committee every six months. This budget execution is still not available in monthly notes. Reporting is done at the same time as the projects when an overall reporting may better cover liquidity issues. The Treasurer is encouraged to make use of Yuki for the extraction of such budget execution reports and provide them on a regular basis as an item in the Agenda of the EB meetings.
2. The external auditors of the grant audit 2018 commented on the depreciation rules

of JEF. It was followed by a recommendation of the internal auditors on FY 2018 and on FY 2020. The internal auditors strongly reiterate their advice to elaborate depreciation rules and follow a depreciation plan (reference for guidance in the external audit report of 2018). The auditors are willing to provide some support and additional guidance on the elaboration of such in contact with the Secretariat. A depreciation plan should be drafted and could be consulted with the Auditors Committee. Its proper execution should be monitored in a separate table part of the annual financial accounting and reporting of JEF.

3. The Auditors Committee welcomes the permanent role of an Admin & Projects Officer, and recommends a clear function of an officer working on the financial and accounting matters to be always sustained irrespective of the change of staff number and profiles.
4. The auditors keep their previous recommendation for the involvement of the Auditors Committee in any amendment to the financial guidelines. In order to make sure that proper protocols are always in place to safeguard the transparency and accountability of the financial management of JEF Europe, the Auditors Committee recommends a statutory change in the statutes of the financial guidelines towards the guidelines being an annex to the Rules of Procedure. This aims to prevent them from automatically lapsing as with other resolutions.
5. The auditors strongly reiterate their recommendation that the Treasurer of JEF is involved in checking the accounting and financial recordings on a regular basis in order to make sure that the accounting is done correctly, and also in order to gain a good understanding of the daily transaction flow. The need for this has further increased with JEF executing a larger number of projects with implementation of grants compared to previous years. This results in a need for further enhancement of the financial competences within the organisation and support to the Secretariat.
6. The high banking fees noted by the auditors for the financial year 2019 did not occur again in 2021 as well as 2020. Transaction fees for payments made to non SEPA-countries (especially to the Western Balkan countries) were less numerous. This can partly be attributed to the Covid-19 pandemic which resulted in reduced travel and almost no physical meetings/training. Nevertheless, the auditors reiterate their recommendation to the Secretariat to investigate cheaper alternative options in order to avoid another increase when activities resume after the pandemic.
7. The auditors also reiterate their recommendation for the adoption of a clear and consistent nomenclature to label transactions and accounts.

V. Concluding remarks

The Auditors Committee did not find any major irregularities in the bookkeeping of JEF Europe. However, the increasing number of grants and projects makes it more and more difficult for the Auditors Committee and the FC members to gain a full overview of JEF's increasingly complex finances. We therefore strongly stress the need for improved reporting by the EB and/or Secretariat.

Please feel free to contact us directly should you have any further questions or need any clarifications regarding our report.

Done remotely on 26.10.2022 and 11.11.2022.

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