

Annex 5 - Follow-up of audit coverage of Save the Children Sweden's international implementation 2015

Background

After having transitioned most regional and country offices to Save the Children International (SCI), Save the Children Sweden currently implements its international programs through three different implementation models:

- ▶ Implementation through Save the Children International
- ▶ Implementation through other members of Save the Children
- ▶ Implementation through country offices run by Save the Children Sweden

In all three implementation models, SC Sweden's funding may be sub-awarded to other implementing partner organisations. A share of the expenditure for international implementation is also incurred at SC Sweden Head Office. Table 1 below illustrates how these different kinds of expenditure all make up the annual report, which is audited by SC Sweden's external auditors PWC. This report focuses specifically on expenditure related to the implementation of international programs.

Table 1. Different kinds of expenditure SC Sweden

Annual report			
Activities during the year			
A. Expenses abroad			B. Expenses in Sweden
1. Implementation through SCI	2. Implementation through SC Members	3. Implementation by SC Sweden	
Local partners			

The implementation structure described above requires an audit approach which includes expenditure through all three models of implementation, and also ensures audit of funds further sub-granted to local partners. The audit approach is outlined in detail in the SC Sweden's Guidelines for External Audit.¹

¹ Riktlinjer för extern revision på Rädda Barnen.

As described in these guidelines, expenses abroad (A) incurred in implementation models 2-3 and expenses at SC Sweden's Head Office (B) have full external audit coverage, either through agreement-specific audits for implementation by SC Members, through country office audits or the year-end audit at SC Sweden's Head Office. For implementation model 1, however, SC Sweden relies on SCI's statutory audit. The statutory audit of SCI does not include all SCI offices receiving funds from SC Sweden, but a sample of offices selected in order to, together with central audit procedures, give assurance of SCI's reporting as a whole. SC Sweden therefore analyses and follows up on the audit coverage of implementation funded by SC Sweden through SCI.

The analysis takes following information into consideration for each SCI office implementing activities funded by SC Sweden during the year:

- ▶ Forecasted SC Sweden funded implementation in the country for the year. This is considered both in absolute terms and as a share of the SCI's total SC Sweden funded implementation.
- ▶ Country-specific fraud risk based on Transparency International's Corruption Perception Index. If specific fraud related risks have been raised by SC Sweden's Internal Audit, its International Programme or by SCI Fraud, this is also considered.
- ▶ Other risk factors identified by SC Sweden.
- ▶ The last period that was subject to external and internal audit at the SCI office.
- ▶ Input from SCI Global Assurance including country risk assessment and outcome of previous audits.
- ▶ Forecasted partner expenditure share of total expenditure for each office. As all partner agreements are subject to SC Sweden's audit instructions, partner audits can give additional assurance regarding SC Sweden funded implementation by country offices with a high share of partner expenditure.

Considering these factors, SC Sweden's management determines if SCI's audit scope is satisfactory, or if additional audits are required to achieve satisfactory assurance and address specific risks. As per SC Sweden's Guidelines for External Audit, SC Sweden can use any of the following three alternatives, if the SCI audit coverage should not be satisfactory.

1. Commission external auditor to carry out additional audit assignments.
2. Request Global Assurance to increase their audit scope.
3. Carry out additional audit assignments through SC Sweden's Internal Audit.

Risk assessment audit coverage analysis 2015

As a basis for the risk assessment and audit coverage analysis SCI shared a draft audit scope for their statutory audit and internal audit. Based on SCI's suggested audit scope, updated SC Sweden budget figures and figures extracted from SCI's Award Management System, SC Sweden carried out a risk assessment and audit coverage analysis considering the risk factors described above.

New for 2015 is that SCI's external auditors suggested a new audit approach for SCI's statutory audit, where auditing activities at country office level was decreased and audit activities carried out at SCI Centre increased. In the draft audit scope, 9 country offices were suggested for the 2015 audit, compared to 13 in 2014. The central audit activities were to be increased in the following areas:

- ▶ Audit of cash balances across the world at opening and closing of 2015.
- ▶ Audit of member reconciliations and related processes to gain comfort over SCI incoming resources.
- ▶ Review of grants across the world to examine budget versus actual costs. Working capital audited from a balance sheet perspective to examine the closing position of debtors, creditors and provisions.

The audit coverage analysis by SC Sweden showed that the suggested audit scope from SCI external auditors would yield an expected audit coverage of 44-56 percent of SC Sweden's international implementation in 2015. The lower figure represents external audit coverage excluding partner audits. With partner audits included in the analysis, the audit coverage could reach 56 percent. If internal audits carried out by SCI Global Assurance were included in the calculation, the audit coverage was forecasted to reach 58-68 percent.

In spite of the increased central audit activities, SC Sweden's management did not deem this coverage of SC Sweden funded implementation to be sufficient. In particular, additional assurance was needed regarding the country offices in Lebanon and Philippines, which together were projected to account for 24.4 percent of SC Sweden funded expenditure incurred by SCI in 2015 (actual figures at year-end were 26.4 percent). Adding these two country offices to the audit scope would increase the external audit coverage to 59-70 percent.

Actions taken

After exploring the option to commission additional external audits and the option to use SC Sweden's Internal Audit, SC Sweden's management decided, with support from SC Sweden's Audit Committee, to assign SC Sweden's Internal Audit to carry out financial audit procedures in Lebanon and the Philippines. The decision was made both for cost efficiency reasons and in order for SC Sweden to better capture information regarding SCI country office accounting and financial management. SC

Sweden's External Auditors were also consulted in this decision, and would receive reporting directly from the internal audit.

SC Sweden's Internal Audit thus carried out agreed upon financial audit procedures of SC Sweden funded SCI expenditure in 2015 in Lebanon and Philippines country offices in February/March 2016.

Results

The actual figures for audit coverage 2015 are shown in table 2 below, with SC Sweden's Internal Audit's financial audit procedures added to the external audit coverage. The intervals in the grey figures show the audit coverage excluding and including partner audits. As SCI's final reporting of partner audits 2015 has not yet been received, it is at present not certain where within this interval the actual external audit coverage will land. Furthermore, the calculation does not include grant-specific audits, or national statutory audits carried out annually at SCI country offices, which could further increase the audit coverage.

Table 2. Audit coverage of SC Sweden's international implementation

Save the Children Sweden's international implementation 2015 Total: 924 MSEK			
Audited amount: 545-637 MSEK ext. audit (59-69 percent); 612-672 MSEK Incl. GA (66-73 percent)			
A. Expenses Abroad – Total: 826 MSEK			B. Expenses in Sweden (Head Office)
Audited: 447-539 MSEK ext. audit (54-65 percent); 514-575 MSEK incl. GA (62-70 percent)			
1. Implementation through SCI 653 MSEK	2. Implementation through SC Members 73 MSEK	3. Implementation by SC Sweden 100 MSEK	
274-366 MSEK ext. audit (42-56 percent); 340-401 MSEK incl. GA (52-61 percent)	73 MSEK (100 percent)	100 MSEK (100 percent)	98 MSEK (100 percent)

When adding the audit activities carried out by SC Sweden's Internal Audit to the external audit coverage, the actual audit coverage reached 59 percent, the same percentage as forecasted, and 66 percent compared to the forecasted 68 percent if Global Assurance audits are included. Including partner audits in the calculation, the external audit coverage may reach up to 69 percent if all SCI partner expenses are audited, and up to 73 percent including Global Assurance audits.

With the added Internal Audit activities for SC Sweden Lebanon, SC Sweden has achieved a reasonable audit coverage of the international implementation in 2015.