
ActionAid International Sweden

Internal Audit Report

September 2007

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Ylva Strömberg	Country Director, ActionAid Sweden
Lotta Wannholm	Head of Finance, ActionAid Sweden
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1. FACT SHEET

1.	1st Year of Operation:	2006	
2.	Income	£000	
	2006 Actual	94 (excluding 536 from AAI)	
	2005 Actual	n/a	
	2007 Budget	598	
	2007 Forecast	556	
3.	Expenditure	£000	
	2006 Actual	611 (excluding 69 to AAI)	
	2005 Actual	n/a	
	2007 Budget	958 (excluding 484 to AAI)	
	2007 Forecast	1211 (excluding 569 to AAI)	
4.	Sources of income Budgeted	£000	£000
		2006 Actual	2007 Budget
	Sponsorship and other regular giving income	86	463
	Official Donor income	-	135
	Other (Partnership income local)	8	-
	Other (from AAI)	536	-
5.	Number of staff	Average	Date of
		2006	audit visit
		4	9 (7.65 FTE)
6.	Audit history		
	Date of last audit report	n/a	
	Date of current audit visit	September 2007	
	Date report sent to CP	November 2007	
	Management comment received	November 2007	
	Report issued	December 2007	

2. EXECUTIVE SUMMARY

2.1 Introduction to ActionAid International Sweden

ActionAid was established in Sweden in 2006 following registration in March and began its official activities in May 2006. The organisation is a fundraising and campaigning associate of ActionAid International and is currently working towards affiliation.

AAIS has two regular giving fundraising products: child sponsorship and “Girlfriend” (unrestricted regular giving). AAIS is planning to apply for official funding from the Swedish government.

Activities in 2006 focussed on set-up of the new organisation, including establishing the governance structures of Board and General Assembly, developing the website as a key means of communication and recruiting child sponsors in Sweden.

2.2 The Swedish context

Sweden is the seventh largest bilateral donor, contributing a greater share of its GNP than any other donor. Sweden’s large civil society has a stable relationship with the government, based on strong public and political support for NGOs.

The document “Positioning ActionAid in Sweden” sets out AAIS’ positioning in the Swedish context. The particular emphasis of ActionAid in Sweden is to:

- Focus on women and girls –ActionAid's work from a gender perspective
- Take sides with the poor and excluded and take equal responsibility to fight poverty
- Be a voice from the South

2.3 Current strategic plan and objectives

AAIS does not currently have an agreed country strategy; this will not be approved until the next meeting of the General Assembly of AAIS in May 2008. At present, AAIS refers to its positioning presentation which sets out the aims of AAIS as follows:

- raise funds from individuals and companies to support the work in the South
- raise funds from Sida
- Influence and run public campaigns against poverty
- Mobilise and involve individuals in the issues and campaigns

AAIS is to be both a fundraising and a campaigning organisation.

2.4 Senior Management Team (SMT)

The SMT of AAIS comprises the Country Director (CD), the Head of Fundraising and Communication and the Head of Campaigns.

The small size of the team encourages informal daily interaction and updates amongst SMT members. As the responsibilities of AAIS grow with increasing income and increasing activity, it will become important for the SMT to hold more formal, minuted meetings. This will also provide a structure in which organisation-wide

issues can be addressed, including review of the monthly management accounts. The quality and relevance of management information currently received by the SMT could be improved, for example through reporting of variances against budget and of Key Performance Indicators (KPIs) other than purely financial indicators (e.g. fundraising link rates).

2.5 Risk management

A risk matrix was compiled by the CD and Head of Fundraising and Communication as part of the 2007-9 planning process. However, this has not been regularly reviewed and updated. AAIS could benefit from developing a risk-aware culture in the organisation through the identification of risks, the appointment of risk owners, the implementation of mitigating action plans and conducting regular reviews. Effective risk management should prove to be a useful tool to the SMT as the complexity of AAIS operations increases.

2.6 Financial Management and internal control

The current part-time Finance Officer (also part-time International Partnership Development (IPD) Officer) joined AAIS in June 2007. Prior to this, the finance function was outsourced. However, the Finance Officer has identified a number of errors in the accounting for the first half of the year. This is largely due to the inconsistent use of two different sets of cost centre codes and affects the split of expenditure between project, support and fundraising costs. These errors were still being corrected at the time of the audit visit but current estimates are that around 200k SEK (approx £15k) has been posted to the wrong cost centre.

AAIS does not currently have a local finance manual. This has been a significant factor in a number of control weaknesses identified. Procurement policies and procedures have not consistently followed the best practice requirements set out in the AAI Financial Management Framework (FMF), particularly with regard to the need to seek competitive quotations or bids from suppliers and consultants. This has been combined with loosely defined contractual terms and conditions, resulting in a lack of transparency in the selection of suppliers and potentially in poor value for money. A purchase order system is not currently in place at AAIS. If introduced, this could help AAIS track expenditure commitments and ensure that all purchases have budget holder authorisation.

2.7 Human Resources (HR)

HR management falls within the remit of the CD. Although HR records have mostly been retained, these are not easily accessible for reference purposes. This means it is more difficult to identify any gaps in documentation and to justify HR decisions made. In some cases, the appointment of new staff members (including senior staff) has not followed open competitive recruitment processes. AAIS should ensure all appointments always follow the Global HR Framework for recruitment. AAIS management takes a different view from internal audit on this.

2.8 IT and accounting systems

IT services are outsourced. AAIS has recently changed its supplier and reports some improvement in service levels. Confirming the adequacy of software licences and password protection of the accounting system remain outstanding issues. Although

tape backups of the server are made nightly both locally and externally, this relies upon staff backing up the accounting and payroll systems to the server.

2.9 Relationship with AAI

AAIS' relationship with AAI is crucial, particularly in the early years of the start up of AAIS when AAI is investing significant funding in AAIS. However, the exact terms of this relationship and particularly the funding seem to be vague. This has meant that the accounting treatment for these items is uncertain. AAIS' balance sheet shows a large creditor building up to AAI in respect of restricted income which AAIS grants to CPs but does not remit in cash (on the understanding that this should be deducted from AAI's cash remittances to AAIS). At the same time, AAIS's cash balance is quite high, reflecting the fact that AAI's remittances have provided more additional cash than AAIS needs for its cash purchases. AAIS recorded a 'loss' for 2006 equivalent to restricted income raised and granted less the "over-supply" of cash from AAI. AAIS is not clear of the extent to which its costs (current or future) will be met by AAI.

2.10 Banking and cash procedures

Most of AAIS' payments are made by internet banking. This method can promote both the efficiency and the security of payments processing. However, at present there is a lack of segregation of duties in the system as one person can both set up and effect the payment. Bank reconciliations provide a form of alternative control, but these are not normally reviewed by a second person at AAIS (and do not currently fully reconcile).

2.11 Fundraising

Fundraising is a core activity of AAIS and it is important that AAIS captures all the income to which it is entitled (completeness). There is scope for AAIS to tighten some of its procedures to address this more directly. Documentation of daily, weekly and monthly procedures would help to capture some of the knowledge of day-to-day processing which is carried out by the Supporter Services Manager and promote learning amongst other staff members who are involved in income processing less regularly. There is currently no database or system for analysing supporter comments and AAIS has struggled to produce some reports from the Progress supporter database. A key control is the reconciliation between the Progress supporter database and the accounting system but the balances for all three income accounts do not currently match.

2.12 Follow up on 2006 year end external audit recommendations

Implementation of key recommendations from the external auditors is still in progress. These include accounting for the grant of income to AAI (recommendation 7), governance procedures (recommendation 8), the use of cost centres (recommendation 2), and internal controls over income (recommendations 19 and 20) and expenditure (recommendations 4 and 11).

2.13 Acknowledgement

The internal auditor would like to thank the Country Director and all the staff of ActionAid Sweden for their assistance, co-operation and hospitality during the review.

3. MAJOR OBSERVATIONS

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
3.1 Financial management and internal controls					
1.	No local finance manual exists yet. Policies and procedures over procurement and staff expenses in particular are unclear. Different policies appear to apply to staff living outside Stockholm but this is neither clearly stated and justified, nor consistently followed.	Risk of staff confusion over policies leading to inconsistent application and potentially to unfair practices. Risk that only a few individuals have knowledge of AAIS procedures within their specific spheres.	A finance manual should be prepared detailing the local Swedish application of the AAI Financial Management Framework (FMF). This should include policies and procedures on staff loans and expenses as well as procurement of goods and services, use of consultants, and the recognition of income. This should be distributed to staff for their use and reference. Details of monthly procedures carried out by the Finance Officer (e.g. accruals, prepayments, bank reconciliations, payroll journals) should be documented.	The implementation of a Financial Manual has been under discussion in AAIS for a long time. It was decided by the SMT this spring to NOT let the out-sourced financial manager do the Financial Manual but wait for the in-house FM to start. She is now in progress of writing the manual.	Finalised by: 31 Dec 2007 Responsible Lotta Wannholm
2.	Cost centre and project codes are currently duplicated and/or overlapping (there are two sets of codes). The Finance Officer (in post June 2007) has identified a number of associated errors in the coding of transactions from the first half of the year. This affects the split of expenditure between project, support	Risk of inconsistency of coding leading to inaccurate income and expenditure reporting.	The Finance Officer is currently undertaking a correction exercise to eliminate duplicate codes and correct any errors in coding. The completion of this exercise will be essential before year end finalisation of figures. A	When the duplicated and incorrect errors where discovered we contacted the out-sourced FM and asked them to	DONE Responsible Lotta Wannholm

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	and fundraising costs. Current estimates are that around 200k SEK (approx £15k) has been posted to the wrong cost centre.		reconciliation should be prepared showing where and how corrections have been made through this exercise. Despite using different accounting software, AAIS should ensure its coding is as consistent as possible with AAI conventions. AAIS should also consider a review of this exercise (e.g. spot checks).	come in and correct it free of charge. They spent one day in the office of AAIS doing this under supervision of the FM of AAIS. They corrected almost everything and the rest has been corrected by AAIS FM. It has after the correction been controlled by AAIS external auditors and they have given it their OK.	
3.	There is no purchase order or commitments log system at AAIS.	Risk that budget holders are unaware of the full picture of expenditure commitments. Risk of poor information for preparation of accruals journals at year end. Risk of unauthorised expenditure commitments.	AAIS should introduce a purchase order system. Sequentially numbered purchase order forms should be used to submit requests for budget holder authorisation. A log of purchase orders should be maintained centrally by the Finance Officer with details of what has been ordered, when the invoice is expected, and the months in which expenditure falls.	With the growth of the office in Sweden we feel this is a recommendation that we fully agree on. This will be dealt with together with the production of a Financial Manual.	Finalised by: 31 Dec 2007 Responsible Lotta Wannholm

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
3.2 Bank and cash					
4.	Once invoices are authorised, bank payments are made via internet banking by the Finance Officer. No other staff member is involved in the payment process.	Risk of lack of segregation of duties in handling payments from the bank. Lack of supporting evidence of review in the event of disputes arising.	Two people should be involved in making any payment whether this is via internet banking or by writing a cheque. Investigate systems of automated controls requiring the Country Director to review/authorise payments within the internet banking system before submission (e.g. weekly).	With the growth of the office in Sweden we feel this is a recommendation that we fully agree on. This was implemented the week after the internal audit and today the FM record all bank payments via internet banking and the CD authorise the payment afterwards. This means that no money leaves the account until the CD has authorised the payment.	DONE Responsible Lotta Wannholm
3.3 Fundraising income					
5.	The accounting system values of income raised	Risk that undetected	AAIS should perform an initial	The reconciliation	DONE

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	do not reconcile with the supporter database figures for any of the three payment types.	errors exist in one or both systems. Risk of misallocation of income to beneficiaries.	reconciliation exercise to identify the reasons for the discrepancy. Monthly reconciliations between the supporter database and the accounting system should be performed and reviewed. Investigate how automated links between the supporter database and the accounting system can be established.	exercise has been done and all errors found and corrected. A system is now implemented in order for this not to happen again.	Responsible Lotta Wannholm
3.4 Senior management team information					
6.	The SMT currently operates through informal interaction - relying on the small size of AAIS and the small numbers of team members (three) to communicate issues as and when they arise.	Risk that the reliance on informal contact may lead to some issues being overlooked. Risk of confusion over which decisions have been made. Risk that collective responsibilities of the SMT may be overlooked.	The value of informal daily interaction should be retained. However, key SMT procedures should be formalised. This could include scheduled monthly meetings with a standing agenda to provide monthly/quarterly/annual structure. Minutes of the monthly meeting should be documented. The standing agenda should include monthly review of management accounts and financial information, and quarterly review of the risk register.	The SMT now meets on a weekly basis with a standing agenda once a month covering financial and staff related issues. The CD keeps notes from each meeting and distributes them if there have been decisions taken or there needs to be a follow-up of things. If the SMT team	DONE Responsible Ylva J Strömberg

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
				member only working 40% is not on location for the meeting he will partake via telephone.	
3.5 Relationship with AAI					
7.	<p>A large creditor with AAI is continuously building up in respect of restricted income which AAIS is granting to AAI for CPs, but which is not remitted in cash by AAIS. Cash remittances of grant from AAI are not reduced to take into account "remittances" of restricted income raised by AAIS back to AAI. Instead restricted cash continues to be held in Sweden, and AAIS bank balances exceed the AAI standard (6 weeks of expenditure).</p> <p>The terms of AAI's grant are not clear but are assumed by AAIS to be calculated on the basis of total expenditure less unrestricted income (which AAIS is permitted to keep). At present, AAI grant income is insufficient to cover all costs; specifically, AAI grant income is not covering the grant of restricted income to AAI, resulting in the loss in the accounts of 2006. This loss was explained to the Board of AAIS as the difference between the Swedish and the</p>	<p>Risk that accounts of AAIS may not show a true and fair view of creditors and grant income.</p> <p>Risk that the SMT and Board of AAIS are being provided with inaccurate or incomplete information.</p> <p>Risk of inefficient cash management and use across AAI and non-compliance with AAIFMF policies.</p>	<p>The full amount granted as income from AAI is remitted as cash. This has led to the situation where there is too little income to cover costs and too much cash to cover payments.</p> <p>AAIS should seek a written agreement with AAI on the exact terms of funding (both for income granted and for cash). Specifically, AAIS should establish whether grant income from AAI is intended to cover all costs. AAIS should establish whether the cash funding they are receiving is being correspondingly reduced for the restricted funds that AAIS "sends" to AAI.</p> <p>This could affect the relative</p>	<p>This has been discussed with AAI finance and so far it has been cleared how to do with the credit build-up of 2007 but not what to do with 2006's build-up. There are discussions on-going with AAI on the affiliation process and the need to clarify the associative status when it comes to fund transferring from AAIS to AAI to CP.</p>	<p>Finalised by: 31 Dec 2007 Responsible Lotta Wannholm and Ylva J Strömberg</p>

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	UK accounting systems in terms of timing of cost registration.		priorities of campaigning and fundraising. AAIS should establish with AAI how the affiliation process and affiliation status of AAIS affects this agreement.		
3.6 Governance					
8.	External audit in 2006 recommended a review of the articles of association, particularly article 17 regarding financial information to the Board. Some requirements do not appear to be fully met - cashflow statements are not provided to the Board and the audit committee comprises one person.	Risk that financial information presented to the Board is inadequate for effective oversight. Risk that the Treasurer lacks adequate support and involvement from other Board members in oversight of AAIS Finance. Risk of non-fulfilment of articles of association.	AAIS should again review the articles of association. In particular, SMT should consult with the Board to ensure that financial information needs are fully met. Consider appointing an additional member to the audit committee to help strengthen Board oversight of AAIS finances.	The board now gets financial information at each board meeting and in up-dates from the office. One extra person has been allocated to the audit committee.	DONE Responsible Ylva J Strömberg
3.7 Risk management					
9.	The risk management process for 2007 comprised a review by the two members of the SMT. This led to the risk matrix in the 2007 narrative plan. The risk matrix has not been used during the year.	Risks may not be actively managed throughout the year. Risk register may be incomplete or out of date.	A risk management culture needs to be developed across the organisation. The risk register should detail for each risk the assessment of likelihood and impact and a single assigned risk	This is being discussed on a regular basis both in the SMT and with the rest of the staff in the office.	Finalised by: Feb 2008 Responsible Ylva J Strömberg

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
			<p>owner. AAIS should consider its "risk appetite" (how much risk it is prepared to tolerate) and develop mitigating actions for each risk accordingly. The SMT should review the risk register on a regular basis (e.g. quarterly), re-examining the impact, probability and mitigating actions required for each risk. Risk management information should be presented to the Board. On an annual basis other staff members should be encouraged to contribute.</p>	<p>It has not been recorded but we will during 2008 record it.</p>	

4. OTHER OBSERVATIONS

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
4.1 Financial management and internal controls					
10.	There is a low awareness amongst staff of money laundering risks. Some payments have been returned to donors at their request and staff members have not received guidance in managing the associated risks.	Risk that AAIS may be inadvertently exposed to money laundering or fraud.	AAIS should consider increasing awareness amongst staff of the risks of money laundering. AAIS should refer to the existing international policies of AAI.	We have discussed this with SFI (a control body for NGOs in Sweden) and FRII (the Swedish fundraising council) and they recommend repaying as it is common practice. We do have a control system seeing if it is the same person asking for repayment. This has not happened yet and the amount repaid so far is 1000 SEK in all spread over five different donors. We have taken this up in a staff meeting and will	DONE Responsible Lotta Wannholm and Ylva J Strömberg

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
				also include it in the financial Manual.	
11.	Procurement policies are currently unclear and procurements have not followed best practice in the AAIFMF procedures. No documentation was available to evidence a competitive tender or quotations sought for the production company (Vizeum Sverige). No competitive procurement process was carried out for the award of the first IT contract. Procurement of some consultants has been on the basis of personal recommendation without a competitive process and signed contracts for services were not available.	Risk that AAIS is not achieving value for money in its procurement of goods and services. Risk of suppliers providing inappropriate levels or types of services if bid selection criteria are not clear and/or contracted services are not clearly defined. Potential lack of transparency and accountability in the selection of suppliers.	Procurement policies and procedures should be clearly documented. Three quotes should normally be sought before selecting suppliers. For significant items of expenditure a competitive tender process should be used. This can be combined with a database of "approved" suppliers for regular purchases. Signed contracts should be drawn up between every consultant and AAIS specifying the terms of reference for the service to be provided. Best practice in procurement is detailed in AAIFMF section 4.4.3.	With the growth of the office in Sweden we feel this is a recommendation that we fully agree on. This will be dealt with together with the production of a Financial Manual	Finalised by: 31 Dec 2007 Responsible Lotta Wannholm
12.	The accounting system inbuilt control mechanisms are currently underused: <ul style="list-style-type: none"> • budget upload facility is not in use • account codes for ex-staff are still live 	Risk of errors in accounting entries.	The Finance Officer has not yet received formal training on the use of the accounting system. AAIS should consider the cost-effectiveness of this option to maximise the benefits from its investment in the accounting software.	Budget up-load will be done for 2008. We believe it is good to keep the ex-staff alive in the system as we often get asked to find	Budget up-load and ex-staff status will be finalised by: March 2008 Responsible Lotta Wannholm

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
				information on old staff by authorities and that would not be possible if we did not keep them alive in the system As a result of looking over our cost centres the ex-staff will become non-active.	
4.2 Bank and cash					
13.	Bank reconciliations are currently not signed off by preparer and reviewer.	Risk that unreconciled items may continue across months or that errors remain undetected. Risk of inadequate segregation of duties, particularly as staff numbers are small.	Bank reconciliations should be prepared by the Finance Officer and reviewed by the Country Director.	System is in progress.	Finalised by: 31 Dec 2007 Responsible Lotta Wannholm and Ylva J Strömberg
14.	The bank reconciliation for the three income accounts does not reconcile exactly between the accounting system and the bank statements. These amounts are small.	Risk that unreconciled amounts may disguise larger variances netting off. Risk that persistently unreconciled amounts indicate ongoing weaknesses in controls.	These accounts should be reconciled as soon as possible through examining accounting entries and contacting the bank where necessary.	This has been checked and corrected.	DONE Responsible Lotta Wannholm

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
15.	Petty cash systems have not been fully followed. Petty cash currently shows a small difference in the reconciliation and the monthly petty cash count and authorising journal has not always been countersigned.	Risk of unauthorised expenditure from petty cash.	Ensure that petty cash (and other) procedures are fully documented so that in the absence of the regular staff member responsible, procedures are still followed.	Petty cash system is now in place and authorised journals are countersigned.	DONE Responsible Lotta Wannholm
4.3 Fundraising income					
16.	The split between restricted and unrestricted has not been calculated for non-DA projects.	Risk that information provided to AAI and to CPs is inaccurate, leading to poorer decision making.	Although the amounts are currently small, AAIS needs to ensure it operates a system for accurately recording restricted and unrestricted income when it is received, particularly as income grows. Journals should be posted as soon as possible to correct the current errors.	This is already done; it was cleared when AAIS checked the book keeping against Progress.	DONE Responsible Lotta Wannholm
17.	There is currently no system for monitoring and recording supporter comments or complaints. These are normally received by email.	Risk that supporter communications may not be adequately addressed. Risk that any emerging themes may not be detected.	All supporter communications should be logged and periodically analysed for any recurring themes. AAIS should consider contacting other more established fundraising affiliates' supporter services teams to share any best practice on responding to supporters including: tracking supporter complaints, logging supporter comments in the Progress database, and reports on supporter comments (e.g. response	This is in progress and will be implemented during next year	Finalised by: 15 March before our current Supporter Service goes on maternity leave. Responsible Lovisa Ulfsparre and Katinka Lindholm

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
			time, themes).		
18.	The Progress supporter database is only able to produce a very limited range of reports and much of the report information produced has to be manually typed into a usable format (e.g. link rates).	Risk that insufficient analysis information is available to management to inform decision-making.	AAIS should liaise with other more established affiliates to establish which reports are most useful and which are needed for AAI reporting purposes. AAIS should then investigate options to upgrade Progress or identify software which is able to produce these reports.	In November 2007 the supporter service staff got training on Progress and all its benefits. AAIS has communicated to the progress developer FiskBrett what information they need to have and in the agreement with FB they are supposed to deliver 10 reports and have so far not done so. The reporting system will be finalised when other system developments are in place.	Responsible Katinka Lindholm
19.	A child sponsorship or other product link is not created until a signed form is received from the supporter in the post. The supporter's bank details have to be entered manually into the Progress database. Reports of these details	Risk that AAIS may not receive or claim all the income to which it is entitled (completeness of income) if forms are	In future, when AAIS grows larger and the volume of communication increases, consider introducing systems for tracking supporter communications (post, phone and	When AAIS Sweden reaches more than 100 direct debit or plus giros forms a day,	Finalised by: When we reach 100 incoming direct debits or Plus giros.

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	must be downloaded from the Progress database and submitted to the bank to effect direct debit and Giro payments.	missed or lost.	email) to ensure all items received are logged on the supporter database and followed through to income receipts. These controls could include ensuring that direct debit and Plus Giro forms are logged once opened immediately into Progress or listed immediately and checked against the list when input. If AAIS receives cash (or cheques) in the post, two people should normally open the post.	such a system will be implemented. A discussion will be raised during beginning of 2008 on handling cash, if it arrives to the office. This has only happened once since the office opened.	Cash handling, by March 2008. Responsible Katinka Lindholm
20.	Daily and weekly procedures for income processing and supporter services are not documented. Supporter services procedures are normally carried out by one person. This includes preparation of direct debit and credit card schedules. There is no review or check of these schedules before submission.	Risk that in the event of any query the burden of responsibility falls on one individual. Risk of delays or errors if this person is away or on leave.	The Supporter Services Manager should prepare a schedule checklist detailing all regular activities and their frequency (e.g. direct debit collection, credit card collection, submission of new direct debit details, responses to emails). The Head of Fundraising should consider reviewing and signing off direct debit and credit card schedules before they are sent. This could include spot checks for unusual items or amounts, potential double payments, spot comparisons with previous periods, or reasonableness checks.	A checklist is under construction. Head of FR will sign off direct debit and credit card schedules.	Finalised by: 1 Jan 2008 Responsible Katinka Lindholm
21.	AAIS experienced difficulties in using the	Risk that CMIS is not	Consider how AAIS fundraising	AAIS has	For AAI to solve

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	CMIS database including the selection of projects seeking funding, accessing project information, and updating the status of the project.	accurate. Risk of misleading communication across AAI.	staff can be provided with training on CMIS. This will become more important as AAIS seeks more major donor and official fundraising.	communicated to AAI about the problems with CMIS. The problem is that CP doesn't upload projects, don't update information, this means that it is an invalid work instrument.	
4.4 Senior management team information					
22.	Management accounts are currently prepared manually. Presentation of the management accounts could be improved to provide more useful information to management.	Manual preparation may be less efficient and increases the risks of error in transferring information. Risk that key information is missing or disguised in the presentation of information in the management accounts.	Consider how the budget can be uploaded into the accounting system so as to generate the management accounts directly. Finance Officer and SMT should discuss and agree items to be presented in the management accounts. This could include: <ul style="list-style-type: none"> • % variance against budget • year-to-date budget and actuals • presentation in graphs • high level results which are of significance to SMT collectively as well as detailed reports for budget holders 	Further development of the management accounts will happen when we add the budget to the accounting system. We have implemented a % variance to budget, year-to-date budget.	Finalise by: March 2008 Responsible Lotta Wannholm

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
23.	Monthly management accounts do not currently include key indicators for fundraising.	Risk that the SMT may lack up to date information on the fundraising core organisational activities. Risk that management accounts year to date information may not provide adequate information about fundraising trends and trajectory.	Consider monthly reporting of key KPIs for fundraising (e.g. attrition rates, link rates) to SMT. This will provide SMT with an indication of future income as well as year to date actual.	This is something we do discuss once a month in SMT and that the Head of FR and Comm sends to Intl FR each month. Starting from Sept 2007 we are giving this in a newsletter to the board every quarter.	DONE Responsible: Ylva J Strömberg
4.5 Human Resources					
24.	The appointment of staff members, including some senior staff, has not always followed standard procedures in competitive and transparent recruitment. This includes examples where consultants have gone on to become staff members.	Risk that AAIS may not be able to demonstrate adherence to the ActionAid values of transparency and openness.	AAIS should ensure that recruitment of staff consistently follows policies sent out the Global HROD Framework including the creation of new posts, advertising of posts, and competitive selection. Although exceptions might apply for the recruitment of an internal candidate, this would not normally apply to the recruitment of a consultant into a contract of employment. Any unusual processes and decisions in the past should be carefully documented together with	As AAIS has been in a build-up phase and we have considered the need to move forward and recruit people we believe will be of benefit for the organisation rather than always follow the ActionAid HROD framework. We will continue to at time to time not	DONE Responsible: Ylva J Strömberg

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
			the reasons and justifications for this approach.	adhere to the framework in the best interest of the organisation. When we do that we will continue to documents the reasons why.	
25.	Conflict of interest declarations are currently made verbally.	Risk of undeclared conflicts of interest. Potential risks to transparency of AAIS.	SMT and budget holders should consider formalising their conflict of interest declarations in a register maintained as part of HR records. AAIS will need to clarify its code of conduct in respect of staff engaging in activities which might be considered a conflict of interest (e.g. use of the ActionAid name).	This is in progress	Finalised by: Feb 2008 Responsible Ylva J Strömberg
26.	Personnel files are not fully maintained. Some HR information is difficult to locate or missing (for example staff references).	Risk that information is unavailable for HR purposes. Risk of lack of evidence of compliance with HR policies and procedures.	A personnel file should be maintained for each staff member including the signed contract of employment, job description, attendance/leave records, references, CV or application form, job advert, any other relevant documentation (e.g. evidence of identity or qualifications, any other documents required under Swedish law)	There is now a personal file on hardcopy and not only on softcopy for each staff member.	DONE Responsible Ylva J Strömberg
27.	AAIS intends to take a radical approach to	Risk that AAIS may not	AAIS should ensure that it conducts	We will add this to	Finalised by:

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	campaigning and anticipates that this could include actions which might result in contravention of Swedish law. The HR manual states that staff members have the right to decline to participate. The consequences of such action are not included within the current risk matrix.	fully prepare for the consequences of this policy.	a thorough risk assessment of this approach, including appropriate mitigating action plans and an indication of the residual risk which AAIS is prepared to accept. This should be included on the risk register.	the risk register. This is also part of each campaign strategy and will continue to be so.	1 Jan 2008 Responsible Joakim Bergman
4.6 Relationship with AAI					
28.	Intercompany balances reconciliations have not been completed for all months and queries still remain for at least June and July months.	Risk that the financial accounts may contain inaccuracies. Risk that unreconciled differences may have to be written off.	Reconciliations should be performed regularly for all months. Queries should be resolved within one month of month end.	This is now corrected	DONE Responsible Lotta Wannholm
29.	AAIS currently reports to AAI in EUR (for intercompany balances, 3 year plans, management accounts), which is then converted to GBP in SUN.	Risk that variance against budget is disguised or exaggerated by exchange rate fluctuations (SEK/EUR). Risk of artificial foreign exchange gains or losses being recorded (EUR/GBP) rather than the underlying foreign exchange gains or losses (SEK/GBP).	AAIS should report to AAI in either GBP (AAI's functional currency) or SEK (AAIS's functional currency).	From 2008 we will report in SEK as this is what we have done our budget in.	Finalised by: 1 Jan 2008 Responsible Lotta Wannholm and Ylva J Strömberg

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
4.7 Balance sheet					
30.	Inventories costing less than 5000 GBP have been capitalised and depreciation is being charged on them.	This is not consistent with AAI policy and there is a risk that the financial statements will be inaccurate.	To correct the error, the capitalised inventories should be written off to expenditure.	Inventories currently on depreciation will be kept that way until they are written off. Newly purchased inventories are now booked according to AAI policy. This has been checked with the external auditors that recommended us to do it this way.	DONE Responsible Lotta Wannholm
31.	Review of creditors identified two corrections required: <ul style="list-style-type: none"> • mis-posting error of 27k SEK (approx £2k) (transaction A364) • old accruals balance of 38k (approx £3k) to be reversed (account code 2990 staff social security costs) 	Risk that balance sheet information is incorrect/misleading.	Balance sheet information should be kept up to date and included in the monthly management accounts. These outstanding items should be corrected.	This is now corrected	DONE Responsible Lotta Wannholm
4.8 IT systems					
32.	IT systems show some weaknesses: <ul style="list-style-type: none"> • All staff members have access to the 	Risk of unauthorised access to the accounting	The accounting system needs to be password protected and passwords	Accounting systems now has	DONE Responsible

No.	Observation	Risk	Recommendation	Management Response	Responsibility and deadline
	accounting system. <ul style="list-style-type: none"> • Computer anti-virus software is not consistently in place. • AAIS is not able to provide evidence that software licences are in place for all systems. • The payroll system has not been backed up locally since June. 	system. Risk of corrupted or lost data. Risk of inability to demonstrate compliance with licensing.	kept secret to authorised individuals. AAIS should ensure that the IT consultant's ongoing review of software systems and licences is completed and the findings addressed promptly. Finance staff should back up the payroll system to the server daily and a log should be maintained of this.	password Anti-virus system in place All software licenses in place Payroll system is back-up every month	Adam Garley and Ylva J Strömberg
4.9 Strategy					
33.	AAIS Country Strategy is not finalised. This is not expected to be finalised until the General Assembly in May 2008 following presentation to the Board in December or March. At present, AAIS is using its detailed narrative 1 year plan (part of the 3 year plan for AAI) and an interim presentation of the high level vision.	Risk of confusion or miscommunication with stakeholders. Risk of non-compliance with ALPS. Risk that the medium term actions are overlooked with a focus on the longer term vision and a shorter term immediate plan.	Preparation and approval of the Strategy should be prioritised and brought forward where possible. AAIS should ensure that it clearly sets out and communicates its strategy in the medium term (between the detailed 1 year plan and the long term vision). This should be used to support the budget set out in AAIS' 3 year plan.	This is in progress	Finalised by: May 2008 Responsible Ylva J Strömberg

ACTIONAID SWEDEN

5. TERMS OF REFERENCE FOR 2007 INTERNAL AUDIT

5.1 Background

ActionAid Sweden was established on 23 January 2006 and following registration in March, began its official activities in May 2006. It is a fundraising and campaigning associate of ActionAid International and operates from a single office in Stockholm. In the year ended December 2006, its first year of operation, the expenditure of ActionAid Sweden was 9,234 kkr (approx £680k). The office raised funds worth 1,282 kkr (approx £94k) and received funding from ActionAid International of 7,265 kkr (approx £536k). ActionAid Sweden is currently working towards Affiliation. This will be the first internal audit of the Associate.

5.2 Main Objectives

The main objectives of the internal audit will be as follows:

1. To evaluate the financial and management systems
2. To review processes for risk assessment and management
3. To provide input into the Affiliation process on the financial management capabilities of ActionAid Sweden (where applicable)

5.3 Scope of Work

The proposed review will cover the following but would not necessarily be restricted to them:

- Determine whether action has been taken to implement previous external audit recommendations
- Assess the adequacy and effectiveness of the internal controls in operation
- Review compliance with all relevant AAI policies
- Determine compliance with relevant donor contractual and sponsorship reporting requirements
- Review the adequacy of support structures including HR, Logistics and IT

5.4 Field Visits

As ActionAid Sweden operates from a single location with no contracted partner organisations, all audit work will take place at the Stockholm office.

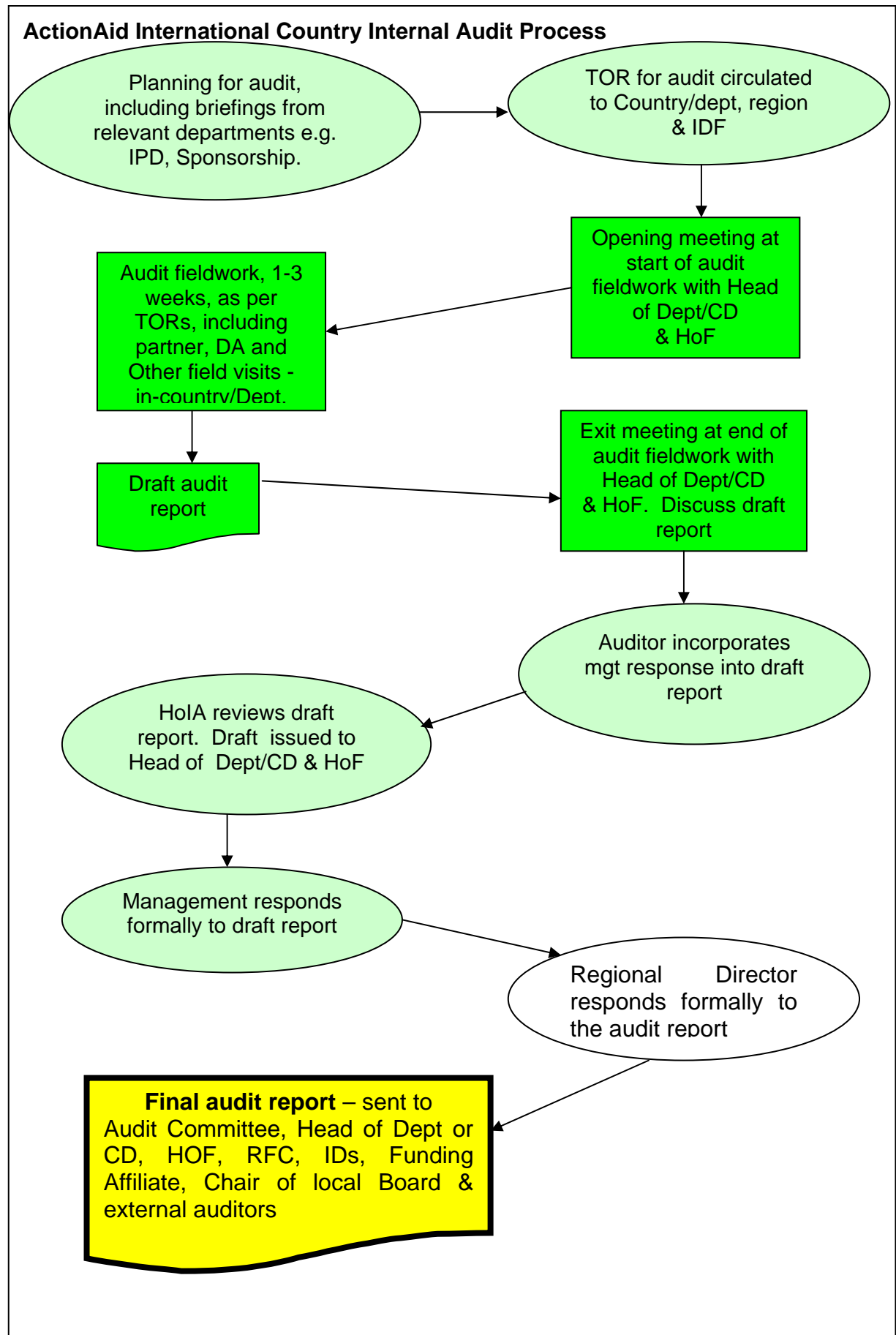
5.5 Itinerary

Date	Activity
3 September (morning)	Opening Meeting with CD, HoF, & other SMT members to cover: <ul style="list-style-type: none">• Purpose, scope and methodology of the audit• Introduction to the strategy, structure and operations of ActionAid Sweden• Management and governance structures of ActionAid Sweden

3 September (afternoon)	Meeting with CD, HoF and other relevant staff members to cover: <ul style="list-style-type: none"> • risk management procedures • security policies and procedures • budgeting procedures • high level financial management and reporting procedures • implementation of ALPS
4 September	Income including regular giving, official income, transfers from AAI and other income to cover: <ul style="list-style-type: none"> • fundraising plans and forecasting • income collection procedures • income recording procedures including donor restrictions • transfers of income from Sweden to AAI and/or CPs
5 September (morning)	SUN and other IT systems
5 September (afternoon)	Bank and cash including bank reconciliations
6 September (morning)	Expenditure including assessment of controls and sample testing, including payroll
6 September (afternoon)	Fixed Assets, Debtors, Creditors and other balance sheet items including identification and recording
7 September (morning)	HR policies and procedures including recruitment
7 September (afternoon)	Closing Meeting with CD, HoF & other SMT Members to cover: <ul style="list-style-type: none"> • recap of audit terms of reference • summary of audit findings and recommendations for SMT • any outstanding information requests • any feedback to the auditor on the audit process • the audit report process

5.6 Auditor

Emily-Ann Bowden



Request for arrangements and information to be ready in advance and at the start of the audit:

5.6.1 Logistics

Arrival date 3 September 2007

Departure date 7 September 2007

Please arrange for the following:

- Accommodation - provide names, addresses and telephone numbers of the hotels booked
- Logistics information – airport transfers, full address of ActionAid Sweden

5.6.2 Information to be sent to Auditor prior to the audit (if not already sent)

- Security policy
- Structure of the CP – number of DAs/regional offices etc
- Current Organograms/organisation charts

5.6.3 Information to be made available on the first day of the audit

- 3 year strategy plan
- Country review (most recent)
- Trial Balance (most recent)
- Management accounts (most recent)
- Donor reports (financial and narrative)
- Bank reconciliations for each bank account and supporting bank statements and SUN reports (6 most recent months).
- Local FPPM
- Payroll summaries (6 most recent months)
- Full asset listing
- Most recent external audit report (if any)

NB: This list is not exhaustive and the auditor will request additional information during the audit. Please note that the information below may also be requested for partner organisations, where applicable.

Please note that where hard copies of the above documents already exist, there is no need to print separate copies for the audit. The documents can also be received in soft copies.