



International Professional
Practices Framework

Supplemental Guidance Practice Guide

PUBLIC SECTOR

Auditing Grants in the Public Sector



The Institute of
Internal Auditors

Global

About the IPPF

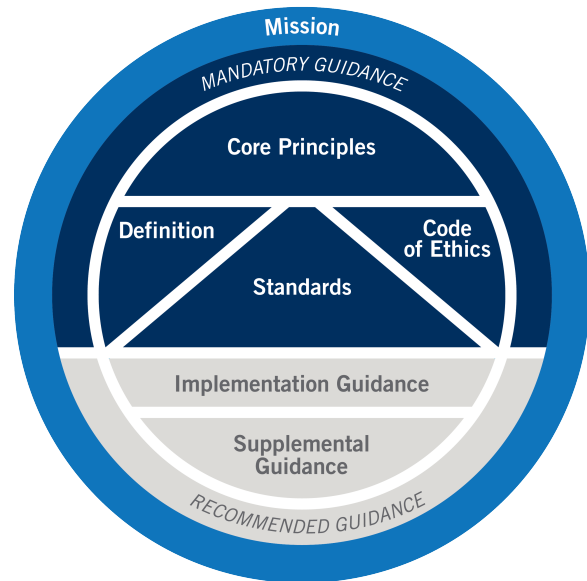
The International Professional Practices Framework® (IPPF®) is the conceptual framework that organizes authoritative guidance promulgated by The IIA. A trustworthy, global, guidance-setting body, The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as Mandatory Guidance and Recommended Guidance.

Mandatory Guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The mandatory elements of the IPPF are:

- Core Principles for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.
- Code of Ethics.
- *International Standards for the Professional Practice of Internal Auditing.*



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About Supplemental Guidance

Supplemental Guidance is part of the IPPF and provides additional recommended, nonmandatory guidance for conducting internal audit activities. While supporting the *Standards*, Supplemental Guidance is intended to address topical areas, as well as sector-specific issues, in greater procedural detail than the *Standards* or Implementation Guides. Supplemental Guidance is endorsed by The IIA through formal review and approval processes.

Practice Guides

Practice guides are a type of Supplemental Guidance that provide detailed, step-by-step approaches, featuring processes, procedures, tools, and programs, as well as examples of deliverables.

Practice guides are intended to support internal auditors. Practice guides are also available to support:

- Financial Services.
- Public Sector.
- Information Technology (GTAG®).

For an overview of authoritative guidance materials provided by The IIA, please visit www.globaliia.org/Standards-Guidance.

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Executive Summary

Public sector organizations are pressured to outsource more of the delivery of public services, and grants are one of the mechanisms available to accomplish this goal. At the global level, this is a high-stakes undertaking. Billions, perhaps trillions, of dollars are funneled every year into grant programs globally to provide basic goods and services that are driven by community needs or mandated by legislation or regulation.¹

The provision of public services through third parties inherently increases risk and liability, and in the case of grants, the potential for corruption, fraud, waste, and abuse is abundant. Much behind-the-scenes work must be done throughout the grant's life cycle by both the grantor and the grantee to ensure that aid reaches the intended beneficiaries.

Internal auditors in the public sector can add great value in the area of grant administration and management in terms of providing assurance that aid is being deployed and used in accordance with rules, regulations, and restrictions, as stipulated by the grantor or any legal or jurisdictional requirements that govern grantors or grantees. Internal audit's involvement may be through proactive evaluations (consulting services) to offer insight and help anticipate future impacts or assessments of processes' efficiency and effectiveness of controls.

¹ USASpending. "Spending Over Time," "time" view selected. Accessed April 2, 2018.
<https://www.usaspending.gov/#/search/60022ae22570eda7afd1ac0619fbb03e>.

Introduction

Grants are used by public sector entities to operate programs, provide services to the community, and fulfill their policy, legislative, and regulatory mandates. Grants are considered a form of outsourcing that often improves efficiency and reach; thus, the demand to create grant programs has increased consistently in the last few years.

Grants can consist of financial and nonfinancial **aid**, depending on the desired outcome/output.

They are typically **nonexchange transactions**, meaning they are awarded without an expectation that the recipient will repay the grant, create profit from it, or return equal value. This nonreciprocal transaction is reflected normally as a one-way flow of resources between a sponsor or pass-through entity and a lower jurisdiction public sector entity or a private one.

Rather than investing in developing new capabilities itself, a **grantor** awards aid strategically to one or multiple individuals or organizations that already have the skills and infrastructure in place to create desired products (e.g., vaccines) or deliver services (e.g., a vaccination program). A **grantee** is the individual or organization receiving the aid to enable their operations and this way meet their own organizational objectives.

Having a robust grant administration program represents a greater chance of successfully meeting the objectives set forth by the grantor, but more importantly, meeting community needs. For the grantee, having a robust program in place increases their chances of receiving grants and resources to sustain their operations.

However efficient, grants are inherently risky because the grantor will usually have only an imperfect knowledge of the applicants, and it may not be possible to inspect the quality of goods and services before or after the awarding decision is made.

In addition, laws and regulations (and therefore grant terms and conditions) vary by jurisdiction, which increases the complexity of administering programs and managing awards.

Note: Terms in bold are defined in the glossary in Appendix B. This guidance contains a variety of technical terms among those familiar with grant administration and management. If a definition does not appear in the glossary, please consult the references and additional reading sources appearing in Appendix G.

Examples of Grant Usage in the Public Sector

- Address specific policy goals.
- Stimulate an industry or the economy.
- Support activities including research and capital projects.
- Deliver public services, such as health care and education.
- Produce goods, such as medicines; intellectual property, such as patents; and infrastructure, such as highways, schools, homes, and hospitals.

The risk level can depend on many factors — the amount of resources involved, the level of new activities and any innovations, the financial standing of the grantee and the quality of its **governance**, its track record of managing similar projects and handling grants of a similar value (and maybe complexity), etc. However, well-managed risk-taking requires guarding against being overly risk-averse while ensuring an appropriate balance of risks between the grantor and the grantee.

Risks, especially for the grantor, include:

- Failing to achieve the objectives of the grant, such as failing to provide the intended services or products to the end beneficiaries.
- Violating laws and regulations.
- Awarding aid to a fraudulent grantee or through corrupt practices.
- Experiencing reputational damage from the occurrence of any of these risks.

Other factors that can increase or decrease the risk level are:

- The financial standing of the grantee and the quality of its organizational governance.
- The grantee or grantor's track record of managing similar projects and handling grants of a similar value (and maybe complexity).

This guidance is intended to assist internal auditors in the public sector with planning and performing assurance and consulting engagements involving grants. The document provides information about the nature and life cycle of grants to help internal auditors, grant managers, and administrators understand, assess, anticipate, and effectively respond to the critical risks related to grant administration and management. When dealing with grants, internal auditors and other professionals should carefully consider the laws and regulations with which the grant stakeholders must comply throughout the process of administering and managing the grant.

Grant Programs

A grant program follows a linear life cycle that includes creating the funding opportunity, applying, making award decisions, and successfully implementing the award. The specific actions along the life cycle are grouped into three phases:²

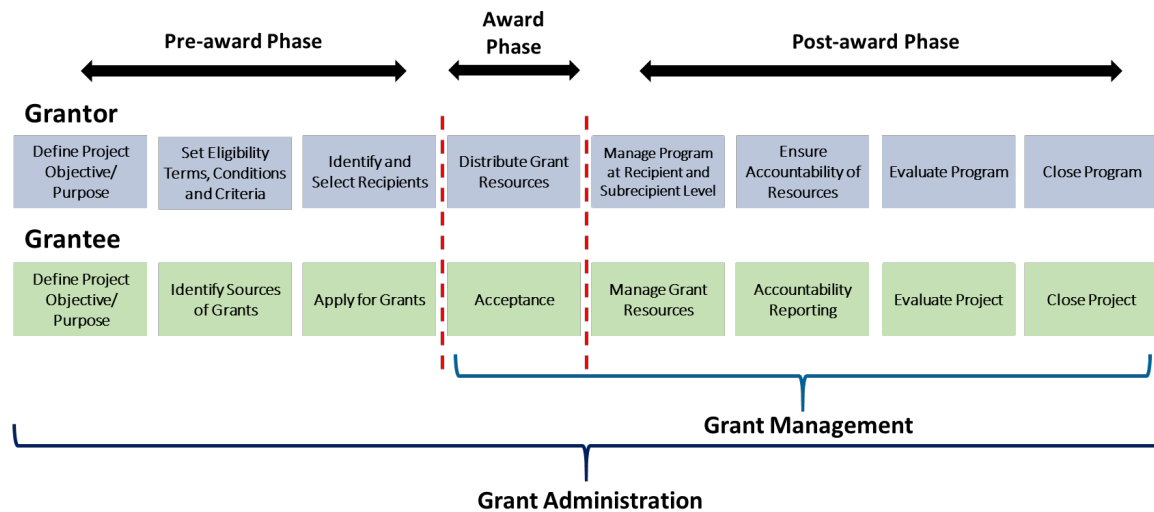
- Pre-award phase.
- Award phase.
- Post-award phase.

The phases are similar for the grantor and grantee, but the activities within each phase are different. For example, during the pre-award phase, the grantor develops a funding program based

² "Grants 101." Grant Lifecycle Timeline. Grants.gov., accessed March 1, 2018.
<https://www.grants.gov/web/grants/learn-grants/grants-101/grant-lifecycle.html>.

on governmental initiatives, while the grantee researches potential sources of funding and the requisites to apply for funding. **Figure 1** shows the most common activities per phase for the grantor and grantee.

Figure 1: Grant Activities per Phase



Grant Administration and Management

The scope and timing of grant administration and grant management processes are different. Grant administration is a broader concept that involves all administrative, financial, and operational activities required to implement, execute, and monitor a grants program (from phase one to phase three).

Grants management has a very specific starting point, and the scope is limited to activities in phases two and three. The management process starts when the grantee signs an agreement with the grantor and aid in the form of funds are disbursed or resources transferred.

Implementing grant administration and management programs can help organizations maximize the benefits and manage the risks of awarding or receiving grants. The complexity of the program depends on the amount of resources either awarded or received, the number of projects that depend on such resources, the number of parties involved in providing the desired outcome/output, and the laws and regulations that guide grants in the location (region, country, state, county, etc.).

The Role of Internal Audit in Grant Programs

Internal audit engagements of grants may involve any or all of the parties participating in the grant, as well as any or all phases of grant administration and management. As a strategic partner, the **internal audit activity** provides risk-based and objective assurance, advice, and insight through assurance and consulting services aimed at helping the parties involved with the grant accomplish

their objectives. In alignment with The IIA's definition, internal audit uses a systematic, disciplined, and risk-based approach to evaluate and propose recommendations to improve the risk management, control, and governance processes related to administering and managing the grant (see Standard 2110 – Governance; Standard 2120 – Risk Management; Standard 2130 – Control; and Standard 2130.A1).

Some grants can take a long time to deliver the desired result; thus, it is recommended that the internal audit activity provide **assurance** or **consulting services** during key stages of a grant's life cycle, acting as a due diligence check before moving to the next phase in the process or closing the program to evaluate the following:

- *Compliance* – With legislation, regulations, standards, professional practices, policies, processes, procedures, and contracts.
- *Achievement of Strategic Objectives* – Which can also include outcomes and outputs that are lower order.
- *Reliability and Integrity of Financial and Operational Information* – Both in terms of ongoing replication, completeness, and accuracy.
- *Economy and Efficiency* – Minimal use of inputs for maximum output, as contrasted from outcomes (implies that efficiency can have unintended or undesirable consequences and not achieve the desired outcome).
- *Safeguarding Assets* – Physical, intangible, temporal, human, financial, and virtual.

Internal auditors responsible for assessing the processes of grant administration and management must have or develop sufficient competency with these topics, according to Standard 1210 – Proficiency. However, the primary strengths of the internal audit activity come from its ability to evaluate the adequacy and effectiveness of controls in responding to risks within the processes and its ability to identify root causes of control inadequacies or failures as well as unacceptable levels of risk exposure.

Whenever possible, internal audit should provide training to grant administration and management employees to create awareness of the importance of internal controls.

Auditing Grant Administration and Management

Standard 2200 – Engagement Planning

This section is intended to help internal auditors determine the key areas that can be included when auditing grants, the type of documents that can be requested, questions that can be included in interviews, and evidence documentation that should be obtained. The examples provided in this guide are not exhaustive, and the internal auditor is expected to customize this document to fit the environment in which they are performing the audit engagement.

Standard 2201 – Planning Considerations

Engagement planning typically starts with a review of the documentation that supports the annual internal audit plan, such as the planning and discussions that led to its development and the reason the engagement was included.

As part of planning the engagement, internal auditors review and gather information to understand the engagement’s purpose and the most significant risks relevant to the engagement. This helps internal auditors to narrow down the engagement’s objectives and scope.

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity’s objectives, resources, and operations, and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity’s governance, risk management, and **control processes** compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.

Internal auditors who assess grants may assess the entire grant process or may focus on particular phases of a grant. The assessment may involve all parties to the grant or may be solely focused on the processes of the grantor or the grantee. The considerations presented in this guide are not exhaustive, but are intended instead to serve as a starting point for internal auditors as they customize an engagement plan and work program for the organization and circumstances in which they are engaged.

Typical Engagement Planning Steps

- Understand the context and purpose of the engagement.
- Gather information to understand the area or process under review.
- Conduct a preliminary risk assessment of the area or process under review.
- Form engagement objectives.
- Establish engagement scope.
- Allocate resources.
- Document the plan.

Note: For detailed instructions on how to plan and scope an audit engagement, see IIA Practice Guide “Engagement Planning: Establishing Objectives and Scope.”

Understanding Engagement Context and Purpose

Internal auditors can plan effectively and ensure that the goals and objectives set forth in the annual internal audit plan are accomplished if they understand the intention of each engagement.

As previously mentioned, grants awarded by public sector organizations are often necessary to meet the needs of society in general.

In auditing grants, internal auditors should start by identifying the policy, legislative, or regulatory mandate for the grant (e.g., business objectives). Sometimes, a grant will be a result of a new or changed policy, and it is the policy which will probably determine what the eventual outcome or output should be to help achieve the wider societal impact.

The next step is identifying the processes in place to achieve those objectives, the risks that could affect the achievement of those objectives, and the controls in place to address those risks.

Internal auditors may also examine the alignment between the organization and the areas responsible for the administration and management of grants, particularly with regard to the following elements:

- Mission, vision, and strategic objectives of the organization and the grant program.
- Structures and processes related to governance, risk management, and control.
- Policies and procedures.
- Risk appetite and processes for managing risk.

Gathering and Documenting Information

During planning, internal auditors must document information in engagement workpapers. This information becomes part of the engagement work program that must be established to achieve the engagement objectives, as required by Standard 2240 – Engagement Work Program.

The primary objective of gathering information is to gain insight into the definitions, frameworks, models, and processes of governance, risk management, and control used by the organization (as required by Standard 2210.A1 and 2210.C1).

Assurance vs. Consulting

The purpose, objectives, and scope of assurance engagements may differ significantly from those of consulting engagements.

When planning consulting engagements, the internal auditor must establish an understanding of the objectives, scope, respective responsibilities, and other expectations that have been determined by the client of the engagement (see Standard 2201 – Planning Considerations; Standard 2210 – Engagement Objectives; and Standard 2220 – Engagement Scope).

To gather such information, internal auditors may:

- Review policies and procedures governing the grant program or a particular grant.
- Review prior risk assessments of the grant process or parties to the grant.
- Review prior audits.
- Interview relevant stakeholders, and brainstorm potential risk scenarios when possible.
- Review grant administration and management manuals.
- Understand and map the grant process flow, including controls, systems, and data inputs.
- Consult with the organization's legal counsel and all other applicable control functions on how to obtain and manage information that is classified sensitive or confidential.

Local governments usually have other sources of information internal auditors can use to learn about applicable laws and regulations that should be included as part of the risks related to grants.

It is important that internal auditors document the information gathered during the engagement planning phase. This process is not always a sequential number of steps. Rather, it is an ongoing process that must be updated throughout the engagement planning as new information is obtained through the review of prior assessments (e.g., risk assessments, reports by assurance and consulting service providers), understanding and mapping process flows and controls, or interviewing relevant stakeholders.

A high-level map of the grant process, which depicts the broad inputs and outputs (e.g., activities, workflow, and processing of critical information), may help internal auditors identify and better understand the systems, information, and interdependencies to consider when determining the engagement objectives and scope. The map can also enable internal auditors to identify where critical information resides (e.g., one system or multiple systems) and how it is used, the stakeholders involved and their ability to access critical information, and the points in the process where effective controls should be operating.

Some of the information needed to complete the process map may be gathered from organizational documents, such as employee handbooks, policies and procedures for managing grants, and system manuals. Interviews with stakeholders may reveal information to incorporate into the process map. Please see Appendices C and D for examples of risk and control matrices for grantors and grantees, and please see Appendices E and F for key phrases for both grantors and grantees.

The high-level process flows for this type of engagement are outlined in **Figures 2 and 3**.

Figure 2: Grantor Administration and Management Process

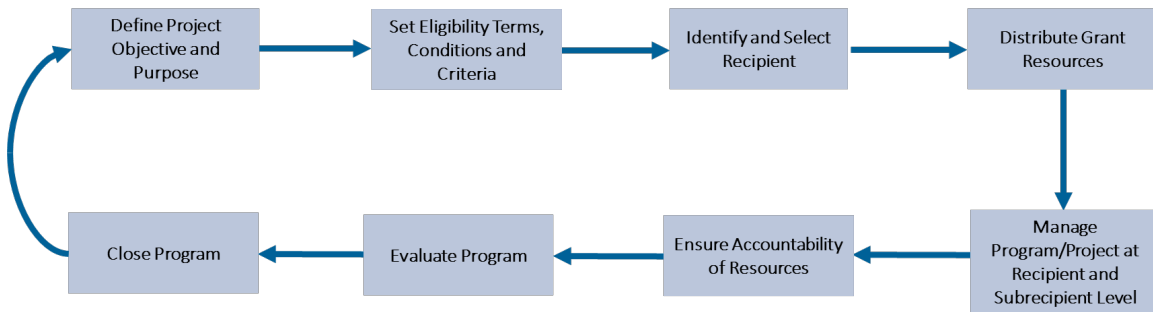
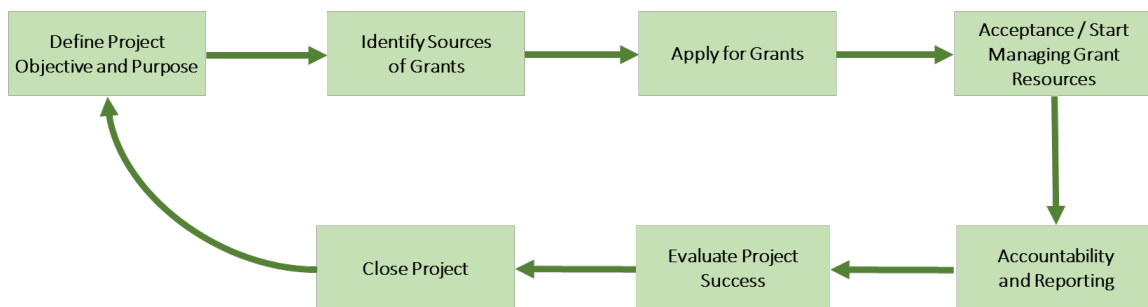


Figure 3: Grantee Administration and Management Process



Interviewing Relevant Stakeholders

This is a critical step that helps internal auditors better understand the objectives, design, operations, and control environment of the area or process under review. Often, organizational charts can assist internal auditors in identifying relevant stakeholders to be interviewed.

Internal auditors should interview stakeholders, such as those who perform the steps in a process, including management, IT personnel, legal counsel, compliance officers, contracted third parties, and others.

Stakeholders in the grants process include the grantor, the grantee, and possibly sponsors — also called pass-through or umbrella organizations — which apply for grants on behalf of an individual or organization that may not be eligible to apply directly. The sponsored individual or organization, typically called the subrecipient, ultimately receives a subaward of the grant resources to carry out the work of the program under the sponsor's oversight.

Figure 4 shows examples of a grantor's stakeholders that could be interviewed during engagement planning and questions internal auditors might ask. **Figure 5** lists examples of a grantee's stakeholders that could be interviewed during engagement planning and questions internal auditors might ask. The key phrases for grantors and grantees in Appendices E and F may be helpful here.

Figure 4: Grantor Stakeholders and Sample Questions

Stakeholder and Stake	Interview Question Examples
Senior Management	
<ul style="list-style-type: none"> ■ Attaining objectives with resources allocated in the grant. ■ Finding appropriate grant recipients in compliance with applicable regulations. ■ Establish due diligence processes to ensure that grantees are properly scrutinized to determine if they are viable candidates. 	<ul style="list-style-type: none"> ■ How were the grant's standards and performance objectives derived and defined? ■ How will the organization measure the grantee's achievement of standards and performance objectives (outcome)?
Grant Procurement (Management)	
<ul style="list-style-type: none"> ■ Sufficiency of systems to handle processes of application, distribution of resources, and monitoring of resource expenditures. ■ Sufficiency of systems to store and share grantee information. 	<ul style="list-style-type: none"> ■ What are the criteria to apply for the grant? ■ How does the organization solicit applicants? ■ How do applicants apply for the grant? ■ How are the applications processed? ■ How do you ensure that grants are not awarded to grantees who have performed poorly in the past? ■ Do you assess technical feasibility for capital projects that may require complex engineering or technical innovations?
Financial Management	
<ul style="list-style-type: none"> ■ Disbursements reach intended recipients. ■ Disbursements are accurately distributed and tracked. ■ Disbursement process is secure. 	<ul style="list-style-type: none"> ■ Can you walk me through the steps of each transaction involving grant resources? ■ Can you explain how grant resources are disbursed and show the tracking mechanisms involved? ■ What controls are in place to secure the disbursement process? ■ How do you ensure that projects are in compliance with applicable laws and regulations (e.g., financial, environmental, land and real estate, planning consent, human resources, health and safety, and safeguarding) before the application is approved – and again when the project is live?
Legal Counsel	
<ul style="list-style-type: none"> ■ Grant application, eligibility criteria, and contract do not violate laws and regulations. ■ All parties comply with terms of grant. 	<ul style="list-style-type: none"> ■ What is the process for vetting the grant criteria, application, and approval processes through legal counsel?
Compliance Management	
<ul style="list-style-type: none"> ■ All parties comply with applicable laws, and regulations and terms of grant agreement. 	<ul style="list-style-type: none"> ■ What type of grant is being offered? ■ What are the relevant laws and regulations?
IT Management	
<ul style="list-style-type: none"> ■ Configuration and maintenance of applicant database and disbursement system. 	<ul style="list-style-type: none"> ■ Can you walk me through the system for grant application and disbursement of resources? ■ How is applicant information stored?

Figure 5: Grantee Stakeholders and Sample Questions

Stakeholder and Stake	Interview Question Examples
Senior Management	
<ul style="list-style-type: none"> Achieving grantee's objectives and objectives of beneficiaries. 	<ul style="list-style-type: none"> How do you plan to meet the objectives of the grantor? How will you document that objectives are met? Is there a plan to ensure that objectives not being met are brought to the attention of stakeholders for remedial action?
Grant Management	
<ul style="list-style-type: none"> Sufficiency of systems and processes to search for and document grant opportunities. Sufficiency of systems and processes to prepare and submit proposals. 	<ul style="list-style-type: none"> How do you search for potential grants and awarding organizations? How do you apply for grants and track grants for which you have already applied? How do you track success rates in obtaining the award? Do you evaluate unsuccessful applications to determine what caused the failure; how do you implement improvements to avoid similar failures?
Financial Reporting	
<ul style="list-style-type: none"> Accuracy of accounting related to grant expenditures. 	<ul style="list-style-type: none"> How do you track a grant's expenditures? How do you approve and document to approve resource expenditures? What financial information do you report? How often do you distribute the information and how do you report to the grantor? How do you report expenditures incurred by delivery partners?
Legal Counsel	
<ul style="list-style-type: none"> Grantee's ability to fulfill grant agreement stipulations and to remain in compliance with applicable laws and regulations. 	<ul style="list-style-type: none"> Who is responsible for authorizing the grant application and acceptance of the grant offered? How do they check your ability to meet key legal and regulatory conditions, such as accounts and audit; environmental and sustainability issues; safeguarding, health and safety; and any planning/building consents? How do you ensure that projects are in compliance with applicable laws and regulations (e.g., financial, environmental, land and real estate, planning consent, human resources, health and safety, and safeguarding) before the application is approved – and again when the project is live?
Compliance Management	
<ul style="list-style-type: none"> Compliance with grant contract terms and applicable laws. 	<ul style="list-style-type: none"> Do you have an internal process for assessing compliance with terms and conditions of grants? How do you assess compliance of delivery partners?
IT Management	
<ul style="list-style-type: none"> Configuration and maintenance of grant opportunities database; systems to prepare and submit proposals and to track resource utilization. 	<ul style="list-style-type: none"> What tools do you use to prepare and track proposals?

Conducting a Preliminary Risk Assessment

Due to time and resource constraints, not all risks can be reviewed during an engagement. Therefore, internal auditors must conduct a preliminary risk assessment and prioritize risks according to significance, which is measured as a combination of risk factors.

Note: For information on effective engagement planning, see “Implementation Guide 2201: Planning Considerations.”

Grant arrangements may be categorized in numerous ways. Some grants may have legal and regulatory specifications or restrictions that present compliance risks. For example, the total funding that a grantee may obtain from public sources may be restricted, even if a variety of grants are combined. Part of the grantor’s due diligence is to be aware of the restrictions pertinent to providing a grant. Three types of grants are described here because the distinction between them illustrates how the relevant risks can change.

Conditional grants are given to an individual or organization for a particular outcome and/or with specified stipulations, such as rules for receiving or allocating resources and/or a requirement to show accountability through reporting. The grant applicant must agree with the grantor’s stipulations to receive the resources. For example, a conditional grant for a university might specify that the resources be used to conduct research on a particular topic by an established date, or local government subsidiaries might receive resources under an agreement to conduct training with a desired outcome. This type of grant mainly presents risks for the grantee. If the grantee violates the terms and conditions of the grant, the grant might be suspended and the grantee might be required to return the aid (e.g., funds or assets).

Unconditional grants are free of restrictions, specific program outputs, or requirements for resource allocation, management, and program delivery. Organizations must follow the protocol to win the grant, but the grant may be used for either **core funding** or at the recipient’s discretion. This distinction may affect the level of control involved in awarding, administering, and managing the resources. However, it may increase the difficulty of measuring program results.

Matching grants are awarded with the condition that the recipient and possibly other entities will match the grant to contribute toward the total project expense. This type of grant is critical for public sector organizations interested in promoting economic growth in developing countries or regions. In most cases, aid is awarded to private sector organizations that cannot secure resources or develop skills and infrastructure through regular channels.

Investments in activities that otherwise would not happen are known as additionality. In other words, the activities and their respective results would not be possible without the aid from one or more grantors. Demonstrating that aid received from the grantor is additional can be difficult and may hinder the potential for a grantee to get the award. For the grantor, it may be difficult to measure the degree of additionality or monitor that aid is only used for the activities deemed additional when the grant was awarded.

Key Risk Types in Grant Management and Administration

The more common concerns related to grants include financial risks, such as fraud, theft, and misappropriation. However, other types of risks can have devastating impacts on a public sector entity, such as reputational or political risk related to corruption or mismanagement of resources.

Corruption includes bribery and other improper uses of entrusted power for personal gain. **Corruption** is often an off-book fraud, meaning there is little financial statement evidence available to prove that a crime occurred. One example would be if grant resources were used as kickbacks or bribes. This may involve artificially inflating the costs of the grant program while providing inferior goods or services to recoup the cost of the kickback or bribe.

Fraud may occur when one party to the transaction is dishonest and seeks opportunities to profit from the transaction. Due to the significance of **fraud** risks, Standard 2210.A2 specifically requires that fraud be taken into account when assurance engagement objectives are developed. For a grant audit engagement, brainstorming fraud and corruption risk scenarios is especially useful because it gives internal auditors a variety of perspectives from which to consider incentives or pressures that could lead to fraud or corruption, opportunities to commit fraud or corruption (i.e., control weaknesses), and ways that management and others could override and/or circumvent controls.

Moral hazard occurs when a party to a transaction (in this case the grantee) specifically has not entered into the contract in good faith; has provided misleading information about its assets, liabilities, or credit capacity; or has an incentive to take unusual risks at the expense of the grantor. For example, a moral hazard occurs when a grantee applies for aid to start a project that is high risk (outside the usual risk tolerance), knowing that any loss will be assumed by the grantor.

Fraud risk assessments and other documents related to any fraud allegations and investigations are particularly relevant since fraud risk is typically significant in grant auditing. Internal auditors should review relevant documentation to understand the facts from the allegation or investigation and the outcomes, and may gather additional information by meeting with those in the organization responsible for managing fraud risks, allegations, and occurrences (e.g., legal, human resources, fraud risk management). Internal auditors may limit research to a reasonable timeframe for confirmed occurrences of fraud and for allegations that were investigated but not substantiated.

Note: For detailed instructions on how to conduct a fraud risk assessment as part of engagement planning, see IIA Practice Guide “Engagement Planning: Assessing Fraud Risks.”

Reputational risks (loss of public trust or similar damage) can be the result of awarding aid to parties that are unprepared to successfully deliver goods or services to the intended beneficiaries or are poorly governed. Examples of risk scenarios that could affect a public sector entity's reputation include:

- Grants given for votes can favor one part of the community in particular.
- An organization using media to raise public interest and intensely lobby a grantor, leading to awarding aid without properly vetting the organization's governance or ability to fulfill the grant agreement.
- Beneficiaries failing to receive goods or services.
- Discovery of misappropriation or waste of resources by a grant recipient or subrecipients, especially if exposed by media.
- Children, vulnerable adults, or animals being physically or emotionally harmed while participating in a project.
- Grantees using resources for activities that are deemed undesirable or illegal.
- Projects of a highly controversial nature, and in which a grantee may not have revealed its planned usage of controversial means in carrying out the project in their original grant application.

Performance risk occurs when a grantee is unable to complete a project successfully, or unable to organize resources in a way that will successfully fulfill the objectives established by the grantor. For example, a grantee's weak organizational governance and management control over resources might lead to intended beneficiaries failing to receive the expected goods or services.

This particular type of risk can have significant impact on the grantee because poor performance history can reduce the likelihood of receiving aid in the future, and for the intended beneficiaries who will not receive the goods or services promised.

Performance can be difficult to predict and measure when various activities are necessary to produce an output/outcome but their contribution is difficult to isolate, or when the output/outcome may take time to be realized. Furthermore, outcomes are difficult to quantify without the proper key performance indicators. **Figure 6** shows the main differences between measuring outputs and outcomes.

Figure 6: Outputs vs. Outcomes

Output	Outcome
Description <p>In a performance management audit engagement, outputs are typically more objectively measurable than outcomes are, making outputs easier to attest. Outputs can usually be operationalized, measured, and reported — whether quantitatively or qualitatively — as a tabulation, calculation, or recording of an activity or effort.</p> <p>Output metrics usually possess two key characteristics:</p> <ul style="list-style-type: none">■ They are systematically or periodically captured through an accounting or management information system.■ They have a logical connection to other reported measures and/or the program’s purpose.	<p>Outcomes are more subjective in nature because they often require interpretation when assessing whether a grant’s specific result has been achieved. Outcome measurement requires planning at the front end — the better the planning, the more impact the measurement will have on determining the success of a program (the positive changes that take place as a result of the program).</p> <ul style="list-style-type: none">■ Outcome measurement should focus on the impact that the program aims to bring about. In other words, how things look after the good or services have been delivered.
Example: Measurements for a “Mothers and Babies” Program	
Have 50 more Health Visitors or Infant Nurses employed in a city and for 1,000 infants to receive an inoculation and be supplied with vitamins.	Have healthier infants, with fewer admitted to the city’s hospitals with illnesses such as measles or low growth rates, and for mothers to have greater awareness of infant health issues.

Creating a Risk and Control Matrix

A risk and control matrix builds on the list of potential risks generated during brainstorming. Information gathered throughout the engagement planning process may be added as additional matrix columns to indicate the inherent risk, potential impact, and likelihood of identified risks, and to document how the risks have been addressed.

The risk and control matrix should contain sufficient information to prioritize the risks that should be assessed during the engagement. In the example shown in **Figure 7**, the impact and likelihood ratings are also included for illustration purposes.

Appendices C and D provide examples of risk and control matrices for grants administration and management from the perspective of the grantor and the grantee. They are intended to be illustrative rather than comprehensive.

Note: For detailed instructions on developing the elements below, see IIA Practice Guide “Engagement Planning: Establishing Objectives and Scope”:

- Risk scenarios.
- Risk and control matrix.
- Risk prioritization maps (i.e., heat maps).

Figure 7: Risk and Control Matrix for Grants

Risk Scenario Category	Risk	Impact (L,M,H*)	Likelihood (L,M,H)	Control	Residual Risk (L,M,H)
Reputational	Grant awards are politically motivated, with politicians favoring one part of the community in particular.	H	L	<ul style="list-style-type: none"> Codes of Conduct and Register of Interests Scrutiny by committees Award decisions made by panel Annual budget 	L
Performance	Grantee is unable to start activity on time and deliver the expected goods and services.	L	M	<ul style="list-style-type: none"> Applications for “new work” require submission of work plan and job descriptions. Assessment process then takes account of grantee’s capacity and its mobilization plan. Project budget is checked for recruitment and training costs. Doubtful applications are rejected for re-working by applicants. 	L

* L, M, H = Low, Medium, High

Standard 2210 – Engagement Objectives

Once risks have been prioritized, internal auditors are better able to determine the engagement objectives and scope. Assurance engagement objectives must:

- Reflect risks to the business objectives of the area or process that were assessed as significant during the preliminary risk assessment (Standard 2210.A1).
- Consider the probability of significant errors, fraud, noncompliance, and other exposures (Standard 2210.A2).
- Be based on evaluative criteria (Standard 2210.A3).

According to Standard 2210.A3, internal auditors must use the criteria already established by management and/or the **board**, if such criteria exist.³ If no criteria are in place, internal auditors must identify appropriate criteria through discussion with management and the board. Internal auditors should also consider seeking input from subject matter experts to help develop relevant criteria.

³ The term *board* is not always applicable in public sector organizations. An equivalent role of a board is/can be discharged by various other means in the public sector context (for example, parliament, ministers of state, accounting/accountable officers, or members of public authorities).

To avoid misinterpretation or challenge by personnel responsible for the area or process under review, the evaluation criteria should be relevant, reliable, and documented. Adequate, appropriate criteria will provide a reference for internal auditors to evaluate evidence, understand findings, and assess the adequacy of the controls in the area or process under review. The criteria, or lack thereof, should be compared to industry benchmarks, trends, and forecasts, as well as the organization's policies and procedures.

The following are examples of how assurance engagement objectives could be formulated for a grant audit engagement:

Objective Example 1: The internal audit activity will provide assurance over the following areas:

- Compliance with laws, regulations, policies, procedures, and contracts.
- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information (of grantee and/or grantor).
- Effectiveness and efficiency of operations and programs (of grantee and/or grantor).
- Safeguarding of assets.

Objective Example 2: On the grantor organization, the internal audit activity will assess whether the process for identifying and selecting candidates is effective and complies with applicable regulations, whether disbursements comply with accounting policies, and whether contracts contain the necessary clauses to allow the grantor to oversee the grantee's use of resources.

Objective Example 3: On the grantee organization, the internal audit activity will assess whether the resources are being allocated to the appropriate general ledger (G/L) account and used as contracted with the grantor.

Internal auditors working for the granting organization may focus on whether:

- The process for identifying and selecting candidates is effective and complies with applicable regulations.
- The disbursements comply with accounting policies.
- Whether the contracts contain the necessary clauses to allow the grantor oversee the grantee's use of resources.

On the grantee organization, internal audit may assess:

- Whether the aid is being allocated to the appropriate G/L account.
- Whether the aid is being used in ways that benefit the intended population.

Standard 2220 – Engagement Scope

Once the risk-based objectives have been established, the scope of the audit engagement can be determined. Because an engagement generally cannot cover everything, internal auditors must determine what will and will not be included. The engagement scope sets the boundaries of the engagement and outlines what will be included in the review. Internal auditors must carefully consider whether the scope will be sufficient to achieve the objectives of the engagement (Standard 2220 – Engagement Scope).

The scope may define such elements as the specific processes and/or areas, geographic locations, and time period (e.g., point in time, fiscal quarter, or calendar year) that will be covered by the engagement, given the available resources.

The following are examples of how the scope could be formulated for an assurance engagement over a grant.

Scope Example 1: The engagement will cover the strategic objectives, policies, and procedures specified in the grant under review, as well as the applicable laws and regulations; the financial and operational information related to the grant; the safeguards of the grant assets; and the operations and programs of the grant.

Scope Example 2: The engagement will cover the processes for inviting grant applications and their appraisal; the award process — particularly the robustness of the terms and conditions applied and the grantee’s acceptance of them — and the budgeting and accounting arrangements of the program.

Scope Example 3: The engagement will cover financial record keeping, including the recognition of costs, how grant income and expenditures are recorded in the G/L for the preparation of claims and returns and the annual financial statements.

Standard 2230 – Engagement Resource Allocation

After establishing the engagement objectives and scope, internal auditors must determine appropriate and sufficient resources to achieve the engagement objectives, as required by Standard 2230 – Engagement Resource Allocation. The interpretation of Standard 2230 clarifies that *appropriate* refers to the mix of knowledge, skills, and other competencies needed to perform the engagement, and *sufficient* refers to the quantity of resources needed to accomplish the engagement with due professional care.

Resources are allocated to the engagement based on the following:

- The knowledge internal auditors acquire during engagement planning.
- The nature and complexity of the engagement.

- Time constraints and/or the number of hours budgeted for the engagement.
- The knowledge, skills, and experience of available resources.

Internal auditors should consider whether external resources (e.g., specialists or supplemental resources) or technology will be necessary when the internal audit activity does not have appropriate or sufficient resources.

Standard 2400 – Communicating Results

The style and format of reporting engagement results varies across organizations and should take into account laws and regulations, organizational culture and communication policies, and the expectations of senior management and the board or equivalent governing body.

Note: For detailed instructions on how to prepare an internal audit report, see IIA Practice Guide “Audit Reports: Communicating Assurance Engagement Results.”

According to Standard 2420 – Quality of Communications, “Communications must be accurate, objective, clear, concise, constructive, complete, and timely.” The content and level of detail should be determined by the needs of the audience and any regulatory requirements. In many cases, different versions of the report customized for a particular audience may be created. Consider these questions about the audiences when customizing reports:

- Who are the most important readers of the report?
- How much do they know about the audited activity?
- How do they plan to use the report?
- How do the identified issues impact the reader?

In regard to distributing internal audit reports outside of the organization, Standard 2440.A2 states, “If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization, the **chief audit executive** (CAE) must assess the potential risk to the organization, consult with senior management and/or legal counsel as appropriate, and control dissemination by restricting the use of the results.” Within the public sector, the public availability of assurance engagement results and reports is often mandated by law.

Considerations to Improve Grant Administration and Management

Here are recommendations and suggested activities, though not an exhaustive list, to improve grant administration and management. It is a good practice to check jurisdictional laws and regulations related to grants.

Determine If a Grant Is the Right Funding Tool

- Compare the cost and benefits between grants and self-performing work.
- Compare the potential risk considerations between grants and self-performing work.

Manage Multiyear Grants

- Conduct risk assessments of programs/projects at least once annually (or every six months, if level of eligible activity and cost disbursements warrants it).
- Ensure the cost of implementing internal controls does not exceed the potential risks/liabilities.
- Use risk assessment results as the basis for audit and compliance plans.
- Audit applications for anomalies through risk-based sampling.
- Evaluate and test selected internal controls, including IT-related controls.
- Implement a comprehensive and effective compliance program that includes: investigative protocols, whistleblower procedures, and a process to refer matters to regulatory and legal authorities, if and when appropriate.
- Ensure that the grantor's auditing, monitoring, and evaluation process effectively mitigates the risk of fraud, waste, and abuse, and that disbursement of resources is transparent to all stakeholders.
- Develop and implement policies and procedures to help ensure that program requirements are met, including preventing duplication of benefits, and measures to detect fraud, waste, abuse, and mismanagement of resources.
- Incorporate subrogate provisions into written funding agreements to reiterate the importance of the recipient formally notifying grantor should additional benefits be received at any time prior to closeout.

Reduce Reporting Burden by Combining Multiple Departments

- Combined reporting can help minimize fraud risk and ensure correct use of funding grants.
- For this type of reporting, it is necessary to define an appropriate internal reporting line to ensure common understanding about funding projects at all levels of the organization.

Include “Right to Audit” Clause in all Contracts

A grantee must agree to a “right to audit” clause to ensure that the grantor can perform audits of the grantee’s premises and use the grantee’s data to perform proper oversight about the use of funded projects. Audits can include:

- Periodical audits.
- Unannounced audits.
- Audits of records.
- Audits of project progress.

Cost Effectiveness Assessment

Review the planning documentation from the grantee regarding:

- Realistic timeframe.
- Appropriate cost calculation.
- Quality management.
- Review of cost accounting information during the project life cycle.

Just-in-time Audits

- Implement a process to assess grantee’s internal controls on a real-time basis.
- Plan regular reviews of records and project documentation.

Cash Flow Controls

- Ensure funds are used for the intended purpose.
- Ensure funds are properly tracked.

Grant Management Systems

- Implement systems suitable for the administration and management of grants.
- Include IT-related controls when auditing the grant administration and management process.

Appendix A. Related IIA Standards and Guidance

The following IIA resources were referenced throughout this practice guide. For more information about applying *the International Standards for the Professional Practice of Internal Auditing*, please refer to The IIA's [Implementation Guides](#).

Standards

Standard 1210 – Proficiency

Standard 2110 – Governance

Standard 2120 – Risk Management

Standard 2130 – Control

Standard 2200 – Engagement Planning

Standard 2201 – Planning Considerations

Standard 2210 – Engagement Objectives

Standard 2220 – Engagement Scope

Standard 2230 – Engagement Resource Allocation

Standard 2240 – Engagement Work Program

Standard 2330 – Documenting Information

Standard 2400 – Communicating Results

Standard 2420 – Quality of Communications

Standard 2440 – Disseminating Results

Guidance

Practice Guide “Auditing Anti-bribery and Anti-Corruption Programs,” 2014.

Practice Guide “Audit Reports: Communicating Assurance Engagement Results,” 2016.

Practice Guide “Engagement Planning: Establishing Objectives and Scope,” 2017.

Practice Guide “Engagement Planning: Assessing Fraud Risk,” 2017.

Other Resources

IIA Position Paper: *The Three Lines of Defense in Effective Risk Management and Control*, 2013.

Appendix B. Glossary

Terms identified with an asterisk (*) are taken from The IIA's *International Professional Practices Framework*® Glossary.

Aid⁴ – Financial resources, equipment, or services provided for people, countries, or organizations that cannot provide for themselves.

Assurance Services* – An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board* – The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Bribery⁵ – The offering, giving, receiving, or soliciting of anything of value to influence an outcome. Bribes may be offered to key employees or managers such as purchasing agents who have discretion in awarding business to vendors. The other side of offering or receiving anything of value is demanding it as a condition of awarding business is termed "economic extortion."

Chief Audit Executive* – Describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

Conditional Grant – Funds or resources given to an individual or organization for a particular outcome and/or with specified stipulations, such as rules for receiving or allocating resources and/or a requirement to show accountability through reporting.

Consulting Services* – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

⁴ Adapted from Collins English Dictionary. COBUILD Advanced English Dictionary. Copyright © HarperCollins Publishers Accessed March 1, 2018. <https://www.collinsdictionary.com/us/dictionary/english/aid>.

⁵ IIA Practice Guide "Internal Auditing and Fraud," 2009.

Control Processes* – The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Core Funding⁶ – Refers to financial support covering basic “core” organizational and administrative costs of an organization, including salaries of full-time staff, facilities, equipment, communications, and the direct expenses of day-to-day work.

Corruption⁷ – Acts in which individuals wrongfully use their influence in a business transaction to procure some benefit for themselves or another person, contrary to their duty to their employers or the rights of another (for example, kickbacks, self-dealing, or conflicts of interest).

Fraud* – Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance* – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Grant – Financial and nonfinancial contributions or assistance awarded by one organization to an individual or organization for a particular purpose.

Grantor – Any organization, private or public, that awards resources strategically to meet specific goals.

Grantee – Any individual or organization that receives grants to support their operations (also referred to as recipients or subrecipients).

Internal Audit Activity* – A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization’s operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Nonexchange Transactions – Grants awarded without an expectation that the grantee will repay the grant, create profit from it, or return equal value.

Unconditional Grant – Unrestricted by specific program outputs or requirements for resource allocation, management, and program delivery. Organizations must follow the protocol to win the grant, but the grant may be used for either core funding or at the recipient’s discretion.

⁶ European Commission, Technical Sheet – Aid Modalities:1 – Core Funding / Operating Grants, https://webgate.ec.europa.eu/fpfis/mwikis/aidco/images/2/21/TF1_-_Core_funding_-_revisited_2.pdf

⁷ O’Connor, Thomas F. and Stephen L. Morgan. 2012. *CGAP® Exam Study Guide 4th Edition*. Altamonte Springs, FL: The IIA/The IIA Research Foundation, 171.

Appendix C. Risk and Control Matrix for Grants Administration and Management – Grantor

Please refer to **Figure 2** for phases in the process.

Risks	Control Examples	Review Activities
Phase: Program Objective/Purpose		
<ul style="list-style-type: none"> Program does not align with strategic objective of organization. Program does not align with intended purpose of enabling legislation. Performance objectives and standards are not adequately established. 	<ul style="list-style-type: none"> Policies and procedures. Authorization controls. Business case documents. Defined objectives. Defined SMART⁸ outcomes. 	<ul style="list-style-type: none"> Determine if policies and procedures exist and are followed correctly. Assess adequacy and effectiveness of authorization controls and of processes used to establish standards, objectives, and outcomes. Identify business case documents and whether a business case adequately supports the program.
Phase: Eligibility Terms, Conditions, and Criteria		
<ul style="list-style-type: none"> Terms and conditions do not align with program objectives. Eligibility criteria are inadequate. Award criteria are not fair, objective, and transparent. Right to audit clauses; insurances are not adequate. 	<ul style="list-style-type: none"> Definitions of eligibility for beneficiaries and outcomes. Inclusion of grant's terms and conditions in every contract. 	<ul style="list-style-type: none"> Determine whether internal controls are adequate and effective to ensure clear, adequate, and appropriate terms and conditions. Determine whether contracts include the right to audit the recipient's control environment to ensure compliance with the program policies, terms, and objectives. Determine whether contracts contain a clause that allows the grantor to conduct inspections.

⁸ Doran, G. T. (1981). "There's a S.M.A.R.T. way to write management's goals and objectives." *Management Review*. AMA FORUM. 70 (11): 35–36. S.M.A.R.T. stands for Specific, Measurable, Achievable, Relevant, and Timely.

Risks	Control Examples	Review Activities
Phase: Identification and Selection of Recipients		
<ul style="list-style-type: none"> ■ Ineligible recipients are selected. ■ Selection process is inadequate, ineffective, unfair, and/or not transparent. ■ Laws are violated. 	<ul style="list-style-type: none"> ■ Selection process designed to effectively balance risks and controls. ■ Timely and appropriate decisions. ■ Decisions are reasonably justified and properly documented. ■ Separation of duties, the Four Eyes Principle.⁹ 	<ul style="list-style-type: none"> ■ Determine whether chosen recipients have met established eligibility requirements. ■ Assess the adequacy and effectiveness of the selection process in balancing risks and controls. ■ Ascertain whether selection decisions are made timely, and results are properly documented. ■ Validate that the Four Eyes Principle is followed (e.g., segregation of duties, crosschecking, dual controls, or double signatures).
Phase: Grant Disbursement		
<ul style="list-style-type: none"> ■ Ineligible/inappropriate funds or resources are disbursed. ■ Resources are not distributed according to specifications of grant (e.g., amount, timing, and method of delivery). ■ Disbursements are not processed timely. ■ Disbursement process is not in compliance with internal policies or applicable regulations. ■ Inappropriate/inaccurate amounts are delivered. ■ The computer system is inadequate to ensure grants are accurate. 	<ul style="list-style-type: none"> ■ Trail documentation of disbursement transactions. ■ Adequate segregation of duties. ■ Proper reconciliation between awards and disbursements. 	<ul style="list-style-type: none"> ■ Assess accuracy and effectiveness of disbursement controls (e.g. right amount, right account, and right program). ■ Determine if the organization maintains adequate trail of funds. ■ Assess the effectiveness of segregation of duties and controls over account reconciliation. ■ Assess transaction documentation for completeness.

⁹ Basel Committee on Banking Supervision, *Core Principles for Effective Banking Supervision*. <https://www.bis.org/publ/bcbs213.pdf>. (Basel, Switzerland: Bank for International Settlements, 2011). The Four Eyes Principle relates to segregation of duties controls such as segregation of various functions, crosschecking, dual control of assets, double signatures, etc.

Risks	Control Examples	Review Activities
Phase: Program Management at Recipient and Subrecipient Level		
<ul style="list-style-type: none"> ■ Grantee does not carry out work in accordance with terms and conditions. ■ Grantee does not adequately deliver required services to third party or other intended beneficiaries. ■ Resources are misappropriated. ■ Data security and privacy are not ensured. ■ Conflicts of interest (real and/or apparent) occur in grantee's execution of grant. ■ Ongoing monitoring and reporting mechanisms are absent or inadequate. 	<ul style="list-style-type: none"> ■ Robust project management and oversight. ■ Monitoring/inspection by grantor. ■ Terms and conditions requiring specific policies, processes, systems, and reporting mechanisms. 	<ul style="list-style-type: none"> ■ Assess effectiveness of project management controls. ■ Determine whether grantor has an adequate and effective system of monitoring and inspection. ■ Assess the effectiveness of controls in place to manage financial risks. ■ Determine whether the organization has implemented a process to ensure that recipients comply with terms and conditions.
Phase: Accountability of Resources		
<ul style="list-style-type: none"> ■ Grant resources are used inefficiently, inappropriately, or fraudulently. ■ Account reporting is inadequate or inaccurate. ■ Monitoring and reporting are inaccurate or insufficient. 	<ul style="list-style-type: none"> ■ Grant terms and conditions. ■ Disbursement controls, such as dual endorsement. ■ Books and records to support account reporting. ■ Management reporting controls and oversight. ■ Grantor oversight. ■ Legal enforcement against fraud. 	<ul style="list-style-type: none"> ■ Assess adequacy and effectiveness of terms and conditions. ■ Evaluate adequacy and effectiveness of oversight. ■ Determine whether systems of reporting are adequately designed and operating. ■ Ascertain whether systems of management and grantor oversight are operating effectively and whether enforcement is pursued.
Phase: Program Evaluation and Closing		
<ul style="list-style-type: none"> ■ Program objectives were not met. ■ Resources were used in a way that was not intended. ■ Inappropriate restriction in evaluation scope (i.e., trying to steer evaluation away from known problems/delivery failures because the government/department wants to "look good" given the political and money capital invested in a high-profile program). ■ Suppression of findings or lack of response (critical report is quietly shelved and not disseminated internally or published to the outside world). 	<ul style="list-style-type: none"> ■ Program closing procedures. ■ Program evaluation process. ■ Performance metrics. ■ Having a robust specification for the evaluation work and then awarding the work to a competent practitioner with sufficient knowledge of the subject and the beneficiary population/community. 	<ul style="list-style-type: none"> ■ Assess the effectiveness of procedures in place to assess whether program/grant purpose was achieved. ■ Determine if the organization has adequate metrics to assess whether performance standards were met.

Appendix D. Risk and Control Matrix for Grants Administration and Management – Grantee

Please refer to **Figure 3** for phases in the process.

Risks	Control Examples	Review Activities
Phase: Program Objective/Purpose		
<ul style="list-style-type: none"> The program objective/purpose does not match the grant's intended purpose. Applying for grants that organization is ultimately ineligible (wasting time). The program does not include the necessary systems to manage the resources and maximize the benefits. 	<ul style="list-style-type: none"> Implement policies and procedures for application development. Identify eligibility limitations. Understand the community needs and how they can be addressed. Establish a process to research potential grantors to better understand their selection process. 	<ul style="list-style-type: none"> Assess the adequacy of internal controls over application process Determine if the organization has an effective process to identify grants that meet their operational objectives. Determine if the program includes adequate systems to manage the application and grant management process.
Phase: Identifying Sources of Grants		
<ul style="list-style-type: none"> Lost opportunities – unaware of grants or unknowledgeable of application process. Foregone funds due to late application. Unrecoverable administrative costs incurred to manage applications. 	<ul style="list-style-type: none"> Dedicate resources to research potential sources of grants. Implement controls that ensure potential grants match the organization's objectives. 	<ul style="list-style-type: none"> Assess the adequacy/effectiveness of internal controls over identification and screening of all appropriate sources of funds. Determine if the organization has implemented a process to ensure that funding sources have been maximized.
Phase: Applying for Grants		
<ul style="list-style-type: none"> Organization does not have capability to apply for the grant. The organization is deemed ineligible. The organization is rated low on the assessment criteria for competitive funding. The organization is awarded a grant that it does not have capacity to manage. The organization is awarded a grant for which cannot meet the terms and conditions. 	<ul style="list-style-type: none"> Implement a robust grant application process. Implement a continuous improvement process to ensure the application process meets new regulations or operating procedures. Implement controls that ensure completeness/accuracy/validity of information submitted. Secure regulatory approval, or at a minimum, determine if it can be obtained if needed. 	<ul style="list-style-type: none"> Assess the adequacy/effectiveness of grant application process. Assess the effectiveness of controls in place to ensure that information submitted as part of the application process is complete, accurate, and valid. Determine if the organization has implemented a process to secure regulatory approval.

Risks	Control Examples	Review Activities
Phase: Managing Grant Resources		
<ul style="list-style-type: none"> Resources are used for purposes not intended by the grantor (i.e., does not meet terms and conditions). Resources are used for inappropriate spending. Weak management systems to manage funds received. 	<ul style="list-style-type: none"> Adequate/effective internal controls over expenditures. Implement audit trail of resources. Adequate segregation of duties or dual controls for approval. Periodic account reconciliation. Monitoring progress of substantive work during the life of the grant. 	<ul style="list-style-type: none"> Assess the effectiveness of internal controls over expenditures. Assess the effectiveness of audit trail of funds. Assess the effectiveness of tools used to monitor and report progress of substantive work. Determine if proper segregation of duties or dual controls for approval have been implemented and are working as intended. Evaluate account reconciliation procedures.
Phase: Accountability Reporting		
<ul style="list-style-type: none"> Unable to account for resources in accordance with terms/conditions. Resources not used for intended purposes. Resources used inefficiently. Inaccurate/inappropriate internal and external reporting. 	<ul style="list-style-type: none"> Adequate/effective internal controls to account for use of resources in accordance with terms and conditions. Complete/accurate/valid/timely reporting. 	<ul style="list-style-type: none"> Assess the effectiveness of internal controls to account for use of funds in accordance with terms and conditions. Assess the effectiveness of internal controls for reporting complete, accurate, valid, and timely information.
Phase: Program Evaluation and Closing		
<ul style="list-style-type: none"> Program objectives and/or performance standards are not achieved. Program was not effective or efficient in meeting the specific objectives. 	<ul style="list-style-type: none"> Completeness and accuracy of accountability reports. Ensuring project managers have measures in place to demonstrate that objectives and/or performance standards were met. Include steps to evaluate if the program was effective in the program closing process. 	<ul style="list-style-type: none"> Assess the effectiveness of internal controls for accountability reports. Determine if project managers have measures in place to demonstrate that objectives and/or performance standards were met. Determine if the organization has implemented a process to determine if the program was effective. Assess the tools enabling measure of grantor's satisfaction (e.g., surveys).

Appendix E. Key Phrases for Grant Administration and Management – Grantor

Grantor – Any organization, private or public, that awards resources to meet specific goals can be considered a grantor.

Program objective/purpose – During the management and administration phase, the grantor identifies needs that can be better addressed through aid granted to organizations that can deliver products or services to the target audience. To achieve real impact, objectives (the differences which the funding intends to make to people’s lives) should also be defined in the light of policy aims.

The grantor needs to consider what activities and candidates may be best suited to achieve the objective. In addition, it is important to consider the program budget and staff resources required to manage the application, payment, and monitoring processes. IT infrastructure can also be a vital part of grant management — will existing systems cope or will a new one need to be designed, procured, and made operational before payments begin?

Finally, the grantor should give practical thought to program publicity and timing for application, which should be realistic rather than an impractical short window of opportunity.

This phase is critical to the success of the entire program because the objective should help create a common understanding for candidates who wish to apply for the grant. Clear objectives should help candidates decide whether they are likely to have an eligible project, be an eligible grantee, and have eligible project beneficiaries, and grantors must avoid interpretations that could result in the appearance of unfair candidate selection.

Eligibility terms, conditions, and criteria – During this phase, the organization must establish criteria for screening and selecting candidates. This phase is critical because the grantor must protect public resources from improper use or fraud. Eligibility and screening criteria should be closely derived from the program objective to ensure that resources will produce the desired outcome.

In addition, some organizations must meet regulations that dictate the eligibility of candidates for public funding. For example, some countries and regions have issued mandatory guidance for the criteria used to evaluate and select beneficiaries.

Identification and selection of recipients – Ideally, grantees (also known as recipients) should be selected based on the criteria established as part of the program’s objective. The grantor can use a scoring system that can help identify candidates that meet all or most of the criteria.

It can be beneficial for the grantor to create an evaluation committee that includes all stakeholders, including internal audit and the legal department. This committee can use a

scoring system to determine eligibility, and also to determine the amount awarded. Resources awarded may be lesser or equal amounts, depending on scores.

The grantor can also choose to use referees to comment on the need for the project, the outcomes which should be delivered, and the quality/track record of the project manager and their team. It is also useful to know whether the grant is for new or continuing work and whether the applicant is independent or a branch of a larger organization.

The credibility (governance, financial standing, track record, capability, and capacity) of the candidate is critical, as is the quality of their proposal (enrollment of beneficiaries and engagement with them, the strategic fit of the project, work plans, budget, and whether the activities realize the intended outcomes).

Communicating the results in a timely manner is important to meeting the needs of the community — for example, protecting children or other vulnerable groups of people, or animals.

A critical part of this phase is the due diligence. The grantor is responsible for determining if the applicant is really who they appear to be and whether they have complied with accounting, auditing, registration, and other statutory requirements. Another consideration is to identify any particular risks that may need to be managed by close monitoring/obtaining further assurances (“held conditions,” which must be met before money is released). High-risk grants may be reported to legal and risk management groups for further scrutiny before an award is made.

Disbursement of grant resources – Once the grant has been awarded (entirely or partially), the grantor must deliver the resources. During this phase it is important to have the necessary controls to ensure that resources are transferred between appropriate banking institutions, using the appropriate currency, and that disbursements are accurate.

The grantor may choose to pay in advance, incrementally, or in arrears. In some cases post-award or closeout audits are conducted to render final payment when all expenses are incurred and the recipient can provide evidence of expense and goods or services delivered.

The disbursement of grants must be conducted in accordance with applicable laws and regulations because in some countries, there are special rules for how and when a grant can be paid. For example, in the United Kingdom, there is a treasury policy/practice that states that normally grants cannot be paid in advance of need.

Public sector organizations may have working arrangements under which they support community/charitable bodies. This may be known as a “compact” or “third sector funding protocol” that allows small organizations to have payments in advance.

Program management at recipient and subrecipient level

Oversight is needed to ensure the resources are applied to achieve the intended goal. The need for oversight is proportional to the amount being awarded; thus, terms and conditions must be included in any contract signed by the recipient to ensure the grantor's right to review documentation or inspect operations as needed to guarantee that resources are used in alignment with the agreed-upon objective(s). Terms and conditions should also include the right to challenge actions that are not sanctioned.

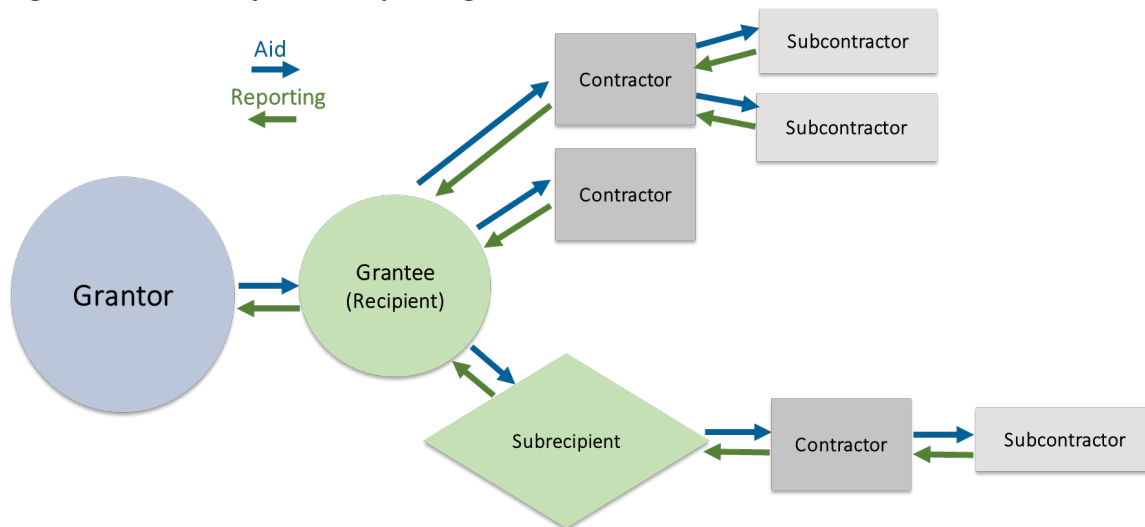
Subrecipients

Considered extensions of the recipients and therefore must maintain documents for activities funded by grants in the same manner as recipients (if applicable). The responsibilities to maintain records must be established through the written agreement between the grantor and the grantee.

The nominated grant recipient is accountable not only for its own share of the money, but for all other partners' shares. This way, the grantor has only one body to deal with if there is an issue. This also alerts the grant recipient that it must manage and monitor what others are doing, rather than simply serving as a passive intermediary for money/resource flow.

Grant management can be very complex because one grant may be disbursed to several parties providing goods or services. As part of the due diligence process, the grantor must clearly identify all the parties that will be involved in the project, and understand their relationship with the recipient. **Figure E.1** shows a potential scenario for aid distributed across four layers of recipients and contractors.

Figure E.1: Four Layers of Reporting



Subrecipients – Public or private nonprofit agencies, authorities, or organizations, or community-based development organizations receiving funds from the recipient or another subrecipient to undertake eligible activities; designated by grantor via an application or other selection

method. Subrecipient performance must be monitored by the recipient that was awarded the aid directly from the grantor.

Pass-through Entity¹⁰ – An organization that provides a subaward to a subrecipient to carry out part of the work needed to meet the grant’s objective.

Contractors – Entities selected by the recipient or subrecipient through a formal procurement process to provide clearly specified goods or services subject to requirements for a specific scope of work.

Subcontractor – Any supplier, distributor, vendor, or firm that furnishes supplies or services to or for a prime (general) contractor or another subcontractor.

Accountability of grant resources – The recipient is accountable to the grantor for the proper use of resources to deliver public services. However, the grantor should implement a process to verify that resources are allocated only to those activities sanctioned in the contract or agreement. For example:

- **Core funding** refers to financial support to cover basic organizational and administrative costs of an organization, including salaries of full time staff, facilities, equipment, communications, and the direct expenses of day-to-day work.
- **Construction projects** refer to resources awarded only for construction or permanent facilities.
- **Vaccination programs** refer to resources awarded to cover expenses specific to the program. In this scenario, vaccines and travel expenses to areas in need are covered, but salaries and facilities are not.

Monitoring and Interventions

Things can go wrong in real life, and a robust, practical, and well-understood intervention protocol should be created to deal with any problems quickly and effectively.

Interventions include suspending the relevant grant (and not awarding any other grants) while investigations are underway. Internal audit and law enforcement/public protection agencies may need to work quickly. Assets may need to be secured. In extremis, the grant may be terminated and action taken to get grant monies repaid. A new body will need to be found to take over services and project delivery staff. Usually, however, there will be some kind of recovery plan and additional support/monitoring.

It is important to determine if there are any ethical standards about public resources/services that should extend into the private sector as recipients of public resources. For instance in the United Kingdom, there are nationally applicable “Standards in Public Life”¹¹ that foster an ethical culture and should be abided by organizations that wish to be awarded grants.

¹⁰ “Grant Terminology.” Grants.gov, accessed March 2, 2018. <https://www.grants.gov/web/grants/learn-grants/grant-terminology.html#P>.

¹¹ NHS Coventry and Warwickshire Partnership, NHS Trust. “Standards in Public Life” are ethical codes of conduct intended to guide public sector employees’ discharge of their responsibilities. The seven principles for anyone working

Post-evaluation and closing – Evaluation is vital for assessing program effectiveness. Long-running or major projects may have both an interim and a final evaluation. Evaluations should be planned and budgeted at the start and should specify what will be evaluated, how, by whom, and when. Process evaluations examine how the grant was managed and administered. Full project evaluations should identify the successes and weaknesses of the project and determine if the process worked as intended and if objectives were met. If shortfalls occurred, the reasons should be identified.

The results of the evaluations should be documented and disseminated to appropriate parties. If the objectives were not properly met, the grantor should determine whether any actions are needed to comply with regulatory and statutory requirements.

in public life are: selflessness, integrity, objectivity, accountability, openness, honesty, and leadership. Accessed March 2, 2018. <https://www.covwarkpt.nhs.uk/standards-in-public-life>.

Appendix F. Key Phrases for Grant Administration and Management – Grantee

Grantee – Any individual or organization that receives grants to support their operations is considered a grantee (also referred to as recipients).

Program objective/purpose – During this phase, the grantee identifies unmet needs of their primary beneficiaries (for example, expanding in volume of delivery or goods or services, expanding to new localities, providing improved or completely new services). In other words, this phase is focused on identifying the outcomes desired and thinking carefully about what activities will bring those to realization, and determining which activities are eligible for grants. Good project planning is essential (e.g., mobilization and overall timetable, manpower and volunteers, job descriptions, a recruitment plan, work plans, finances and other resources, publicity and referral processes, and cooperation with delivery partners). The project should also be a good strategic fit because the cost of pursuing grants must be compensatory relative to the benefits that will be delivered.

At this point, the grantee should have a general idea of sources of grants, and the general requirements to be considered as a candidate. It is recommended that grantees set up a formal control and performance management system to ensure that awarded resources will be maximized.

Identifying sources of grants – Grantees are responsible for continually identifying new funding possibilities. Having adequate information systems can help in researching new opportunities, preparing proposals, and tracking proposal outcomes (including tracking the number of grant proposals denied and documenting reasons for rejections).

Applying for grants – One key for success during this phase is understanding the grantor's priorities, eligibility criteria, and application windows (some organizations may operate seasonal or annual bidding rounds, while others may have outstanding bidding windows).

Keys in any application are to read the grantor's instructions, fill forms in completely, provide all necessary supporting papers (e.g., budgets, work plans, and references), and meet deadlines. The grantor may offer advice, but good preparatory work will be key to being considered for the grant. Some elements that can help the candidate prepare include having

Finding Sources

Good ways to stay informed about new grant programs include using support services or databases that consolidate information from multiple organizations, visiting government websites, and building relationships with prospective grantors to understand their priorities and operating procedures.

up-to-date governance, accounting, and regulatory compliance policies (which can include equalities, health and safety, and safeguarding), and obtaining all necessary registrations and consents (e.g., for land development/buildings).

Writing grant proposals requires qualified personnel. Some of the attributes necessary to prepare grant proposals include knowledge of the recipient organization's needs and goals to convey information about the opportunities and risks associated with the program in need of aid. A good grant proposal will describe objectives in enough detail to help grantors assess eligibility with few questions and minimal follow-up.

Grant applications must be reviewed internally before submission. It is recommended that organizations seeking grants create an evaluation committee that includes different stakeholders who can provide insight into the quality and completeness of the application. Having a legal representative can help prepare an application that includes pertinent information about laws and regulations that must be satisfied. Including a representative from accounting, grant administration, or internal audit can help provide more comprehensive information about the control framework used to prevent fraud, misappropriation, or abuse.

Managing grant resources – Recipients must provide appropriate administration and put public resources to good use. For example, if the grant approves the purchase of food, good judgment to avoid selecting an expensive or extravagant menu is important. Preventing waste and abuse is in the best interest of the grantee, allowing more resources to be used toward providing the goods or services beneficiaries need.

On the accounting side, this phase includes creating (G/L) accounts specifically designated for grant management; developing processes to document grant activities from award to closeout; and ensuring that a retention policy is properly defined so that subsequent audits, certifications, or inspections (internal or by the grantor) can be conducted. The retention policy must be designed in alignment with legal and regulatory requirements.

Operation of key internal controls is also important to ensure that funds are safeguarded from loss/misuse and that fraud is prevented. This can include project management controls as well as financial ones. If there are other partner bodies involved in some aspect of service delivery, they will need to be managed and monitored.

Accountability reporting – This phase includes oversight over proper accounting procedures to ensure that resources are not transferred to forbidden accounts. For example, if the grantor designated that resources must be used to support a school math program, the grant administrator must ensure that resources are allocated to the math program and nothing else. Supporting accounting documentation for all resources must be kept to maintain good standing and to keep the organization eligible for future grants.

Program evaluation and closing – This phase involves assessing the fundraising activity rather than the success (or otherwise) of the funded activities. Post-project learning is useful for identifying strengths that can be used as evidence for future applications and for rolling out pilot activities more widely.

Closeout – This is the official process by which an activity, project, program, and grant complete the steps required to ensure that all requirements are met and reporting is no longer required.

Appendix G. References and Additional Reading

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