Cabinet Office

# Guidance for General Grants

## Minimum Requirement Seven: Risk, Controls and Assurance

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## Important note

- This guidance applies only to general grants made by departments and their arm's length bodies (ALBs) using exchequer funding. It does not apply to formula grants or grant in aid, although guidance for the latter grant will be developed in the future. 'Managing Public Money' and local guidance within organisations will continue to apply until then.
- Organisations' primary concern when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including 'Managing Public Money'. Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on all grant expenditure.
- This guidance should be read in conjunction with the wider set of 'Minimum Requirements' guidance documents (including the Introduction). Further information about how to apply this guidance can be found in the following document: ***'Grant Scheme Readiness: a guide to designing and developing a new government grant scheme'***, available online through the 'grants Centre of Excellence (CoE)'. Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.
- This guidance should be approached on a 'comply or explain' basis. It is important to consider flexibility and proportionality in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

## Contents

## Minimum Requirement

All government grants shall be subject to **timely and proportionate due diligence**, **assurance** and **fraud risk assessment**.

## Purpose

*Minimum Requirement Seven:* 'risks, controls and assurance' provides detail on the creation and maintenance of a risk, controls and assurance management framework including counter fraud and due diligence activities. An effective risk, controls and assurance framework aims to reduce the risk of grant schemes failing to achieve their objectives and will support effective risk management.

## Grants Functional Standard: Key References

Mandatory expectations ('shalls') for management of grants related to this minimum requirement have been extracted from the 'Grants Functional Standard' which can be accessed on GOV.UK. *Please note that in some cases the information has been paraphrased for conciseness – refer to the standard itself for the full version.*

| Area | Requirement(s) | Context | Reference | Page |
|---|---|---|---|---|
| **Grant Life Cycle:** General grants life cycle | When developing general grant models and criteria for assessing individuals and organisations for a grant award, consideration **shall** be given to combinations of risk and fraud risk indicators, which could affect the value of the award, or whether the grant should be awarded at all. | Early identification and mitigation of risk is critical. | 5.2.1 Design and development | 13 |
| **Supporting practices:** Risk and issue management | Organisations **shall** ensure effective risk management is established in their assurance and governance processes. | Risk management practices and procedures will factor into wider assurance and governance. | 6.1 Risk and issue management | 18 |
| **Supporting practices:** Counter fraud | An assessment of fraud risk **shall** be undertaken for every scheme proportionate to the value, sector and required activity of the scheme, and supported by mitigating actions appropriate to the identified risks.<br><br>When planning and managing Counter Fraud, GovS 013, Counter Fraud **shall** be followed. | This approach is to ensure that government grant funding in respect of policy delivery and the purchase or improvement of assets is awarded safely and used for its intended purpose. | 6.2 Counter fraud | 19 |

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|---|---|---|---|---|
| **Governance**: Roles and accountabilities | The senior officer accountable for an organisation's grants is accountable to the senior officer accountable for finance. They are responsible for ensuring that the financial requirements for grants schemes and awards are implemented, in full, within the departments and its arm's-length bodies (if any) and depending on the management arrangements in place.<br><br>In particular:<br>- ensuring the required outcomes from grant-making activities are realised, at an acceptable level of risk and cost. | The senior officer accountable for the organisation's grants plays a key role in ensuring an acceptable level of risk is considered in grants management. | 4.4.5 Senior officer accountable for an organisation's grants | 12 |

## Overview

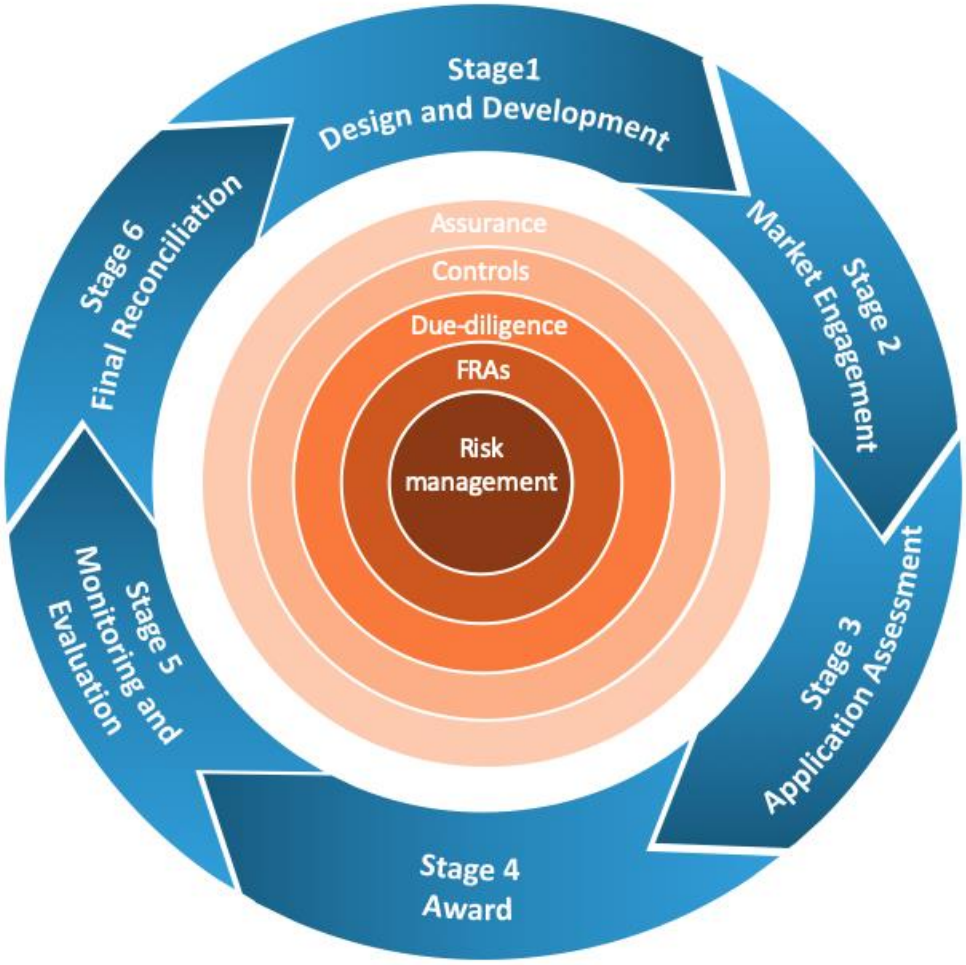
1. Departments and arm's length bodies (ALBs) should have an appropriate framework covering risk, controls, and assurance to manage their grant activity. This document provides detail on what should be included.

2. The Senior Officer Responsible for a grant (SOR) shall retain oversight of their grants and also support the Accounting Officer and the Principal Accounting Officer in discharging their responsibilities, as set out in Managing Public Money. The Senior Officer Accountable for an organisation's grants (SOA) is responsible for ensuring the required outcomes from grant-making activities are realised at an acceptable level of risk and cost.

3. The following sections of this document consider the minimum requirements for risk management, controls and assurance focused on:

   - systems to manage grants in departments and grant making ALBs;
   - management of individual grant schemes and awards.

4. Risk management, fraud risk assessments (FRAs), due-diligence, controls and assurance are all pivotal to the grant making process and shall be considered and continuously monitored throughout the lifecycle of the grant award as demonstrated in the graphic below:



## Risk

5. Risk management shall be included in department and ALB grant management processes. Basic principles related to risk management are contained in the Orange Book.

6. The Grants Functional Standard includes risk management which shall be a core component of every stage of the grant management process, from design and development to final evaluation.

### Risk Appetite

7. Departments and ALBs should decide how effective their grant management processes and systems need to be to deliver their core objectives and this should include an overall risk profile. This will inform the organisation's risk appetite. An immature grant management capability represents acceptance by the department or ALB of a higher degree of risk related to grant making.

8. Departments and ALBs should have an agreed appetite in relation to grant risk and should communicate that risk appetite to all involved in grant management – this includes departments communicating risk appetite to their grant making ALBs. The risk appetite should outline the principal risks that the organisation is both exposed to, and is willing to take, to achieve its objectives. Awareness of the risk appetite in departments and ALBs will support any subsequent escalation of significant risks and issues to senior management, ensuring only risks which exceed the agreed tolerance are escalated.

9. Significant events may change the risk appetite of the department, for example, the Public Accounts Committee inquiry into the Kids Company. In these cases, risk appetite should be reset and re-communicated within the department and its grant-making ALBs. More generally, departments and ALBs should regularly review the approach taken to approving their risk appetite in order to keep pace with the changing types of risks faced.

10. Risk appetite factors to be considered in relation to grants may include: the amount of expected fraud, compliance with the General Data Protection Regulation (GDPR) to protect personal information, ensuring value for money can be demonstrated, or where applicable, covering risks to national security, for example through knowledge transfer or data use as a result of funded research, etc.

### Risk Registers

11. Department and ALB risk registers shall include very high and high rated risks to significant grant schemes and awards.

12. Risk registers shall be held by those teams managing significant grant schemes and awards. These shall be used to consider if additional controls are needed to reduce the impact or likelihood of grant risks. They also support ongoing assessment on whether current risks are outside of the department's or ALB's risk appetite and, therefore, should be escalated.

13. The following are positive attributes related to the use of grant risk registers:

- risks are focused on achievement of the objectives;
- includes consideration of the department and ALB risk appetite in relation to grants;
- the risk register is regularly discussed and is used as an important tool to support good grant management;
- risk management processes are not burdensome, for example the risk register does not require significant effort to maintain and only focuses on the top risks - typically no more than six depending on the grant scheme or award;
- awareness of the distinction between risks and issues; and
- mitigating action should be detailed to reduce the likelihood or impact of the risk within the department's risk tolerance.

14. Approaches to managing risks can be characterised as:

- **Treated**: controls applied to reduce the likelihood and impact;
- **Tolerated**: risk and issues are accepted;
- **Transferred**: responsibility for the grant may be transferred to another business area better suited to manage the risk; and
- **Terminated**: the grant scheme or award is withdrawn or the scheme is redesigned to eliminate one or more specific risks.

15. Where a business area decides to accept – *tolerate* – a significant risk or issue, it should document the management decision and the rationale.

**Resources**: the grants Centre of Excellence (CoE) contains several examples of risk templates and risk appetite statements and also hosts a fraud risk assessment (FRA) template.

16. Departments and ALBs should have a process in place to escalate significant grant risks within the organisation and also to escalate from the ALB to the department, if the risk is significant. Department and ALB risk registers shall include high-rated risks to significant schemes and awards. Significant risks, including those related to fraud, shall be discussed at departmental governance boards and audit committees, as part of an embedded risk review process.

**Risk Prioritisation and Reporting**

17. Departments and ALBs should use their own processes to rate their risks, based on a *probability versus impact* model. This will result in an overall score for each risk. A suggested risk matrix format is set out below. Risk ratings – Very High, High, Medium, or Low – shall be recorded in the appropriate field on the GGIS database to support the identification and review.

**Table**: Risk Matrix

| | | | Impact (Negative) | | | |
|---|---|---|---|---|---|---|
| | | | **Minor** | **Moderate** | **Major** | **Critical** |
| | | | **1** | **2** | **3** | **4** |
| **Probability** | **4** | **Almost certain** | Medium (4) | High (8) | Very High (12) | Very High (16) |
| | **3** | **Likely** | Medium (3) | High (6) | High (9) | Very High (12) |
| | **2** | **Possible** | Low (2) | Medium (4) | High (6) | High (8) |
| | **1** | **Unlikely** | Low (1) | Low (2) | Medium (3) | Medium (4) |

**Risk Impact**

**Critical**: grant objectives will not be substantially met and there is likely to be a significant reputational impact on the department or ALB, including:

- loss of personal information by the grant recipient;
- loss of sensitive information impacting on national security;
- significant likelihood of referral to competition authorities due to subsidy control questions;
- the team has no capacity to monitor and manage grant funds in line with the Grants Functional Standard; and
- funding is diverted by the grant recipient to fund criminal or terrorist activities.

**Major**: grant objectives will not be substantially met:

- significant risk of fraud, impacting a large proportion of the grant funding;
- non-compliance to subsidy regulations;
- due diligence issues related to the grant recipient causing reputational damage;
- team capacity and capability to monitor and manage funds is very limited;
- a team member has an undeclared conflict of interest that is likely to cause reputational damage; and
- payments are not made promptly or accurately to the grant recipient.

**Moderate**: some grant objectives will not be met:

- some risk of fraud affecting a low proportion of the grant funding;
- grant funding not used within the year, resulting in clawback of the funding to the funding organisation; and
- team capacity and capability to monitor and manage grants is limited.

**Minor:** Some slight impact on delivery of the full business objectives and a small risk of fraud.

## Risk Rating

18. The following provide basic definitions of overall risk ratings. Grants loaded onto GGIS shall have a risk rating ascribed to them.

**Very high or high risk**: grants rated very high or high risk may include several risk factors in combination, leading to a greater level of uncertainty in delivery terms. For example, a high value grant awarded to an organisation which does not have a long track record of delivery in government grants, and/ or where a grant is focused in a policy area which is new to the department or highly innovative. Novel and contentious grants and those that are awarded as a result of a ministerial direction, should also be considered for a high-risk rating. These grants have a significant impact on the department's strategy or operational activities and significant stakeholder concern in the event of the risk materialising.

**Medium risk**: grants rated medium risk may be lower value than high risk grants and will usually be in policy areas familiar to the department, but perhaps where the department is seeking to break new ground or innovate. They may also include those which are awarded to organisations considered slightly higher risk in terms of credibility or financial viability due to a lack of alternative options in the market. These grants have a moderate impact on the department's strategy or operational activities and moderate stakeholder concern in the event of the risk materialising.

**Low risk**: grants rated low risk consist of low value, routine or repeat grants in policy areas familiar to the department, awarded to recipients with a proven track record of successful delivery in the public and/ or private sector. These grants have a low impact on the department's strategy or operational activities and low stakeholder concern in the event of the risk materialising.

## Risk Management by Stage

19. Risk management shall be undertaken at every stage of the grant management process:

a. **Design and development**: to ensure risks are considered when designing grant schemes:

- conduct early options and risk analysis, including rating the risks for each option;
- determine the right structure of the design to minimise risks and optimise delivery of objectives;
- secure business case and efficiency control approvals and seek advice from the Complex Grants Advice Panel (CGAP), where applicable, (see 'Minimum Requirement Three: CGAP' for more information);
- engage with appropriate teams including finance, commercial and legal, to ensure related risks are considered;
- assess fraud risk, and where appropriate ensure that *national security risks* are also assessed and apply the appropriate legal frameworks, such as export controls; and

- ensure internal personnel have the capacity and capability to manage the risks under their ownership.

b. **Market engagement**: to ensure risks related to market engagement are reduced:

- prepare the requirement, application documents and evaluation strategy with regard to the department's risk appetite; and
- shall consider potential fraud risks, setting a counter fraud tone and maintaining professional relationships when engaging externally.

c. **Application assessment**: to ensure the organisation considers the risks when selecting the grant recipient:

- conduct due diligence in the context of the fraud risks of the scheme (see mandatory due diligence table and paragraph 47);
- rank the applications, including estimating the level of recipient risk and consider if additional controls are needed as a result; and,
- review risk registers submitted by grant applicants – applicable to significant grants.

d. **Grant award**: to ensure that appropriate assurance requirements are established to monitor risk mitigation:

- approve grant applications and notify the applicant; and
- plan proportionate risk mitigation actions, for example:
    - increasing the frequency or scope of monitoring;
    - providing targeted technical assistance;
    - requiring additional progress reporting;
    - detailing the requirement for internal audits; and
    - applying special conditions.

e. **Performance monitoring:** to ensure delivery risks are managed:

- monitor the recipient's performance and assess if risks are being managed effectively; and
- undertake action to reduce the risk, as required.

f. **Final evaluation:** to consider if there are lessons to improve risk management of similar grants:

- document recipient performance against delivery of the agreed output and/ or financial outturn;
- report prevented and detected fraud to the Counter Fraud Centre of Expertise through the quarterly Consolidated Data Request (CDR) returns; and
- document lessons learnt (See also '*Minimum Requirement Eight: Performance and Monitoring*' for further guidance on evaluation).

**Risk Management in Grant Design and Development**

20. Broad risk areas relevant to individual grant schemes and awards – aligned with Accounting Officer tests on propriety, regularity, value for money, and feasibility include:

- poor value for money secured, or value for money not assessed, due to poor delivery of the output;
- risk of fraud, or loss of public money;
- insufficient due diligence to ensure grant recipient is solvent and an appropriate organisation to receive funding;
- failure to pay a grant recipient promptly and accurately;
- non-conformance to the GDPR, leading to increased risk related to the storage of personal information relating to the grant recipient;
- non-compliance with legal frameworks such as: Export Controls, the Academic Technology Approval Scheme (ATAS), the UK money laundering regulations and the UK Sanctions Regime;
- grant expenditure leads to questions related to subsidy compliance and possible referral to competition authorities by a third party;
- activity is outside the ambit of the department, or is novel, contentious and repercussive, or carries a potential risk to national security; and,
- reputational damage, arising from any of the above.

21. Departments and ALBs setting up grant schemes in the fields of research, innovation, technology and infrastructure should consider the following:

- national security risk: the risk of a threat to UK national security arising from an Organisation's failure to protect intellectual property, classified information or sensitive or dual use technology emerging from a grant award - further advice is available at the Centre for the Protection of National Infrastructure;
- export control risk: the outputs from some grant awards can, in some circumstances, give rise to a risk of breaching export controls on sensitive or dual use technology. Early engagement with the Export Control Joint Unit can help mitigate such risks;
- organisational security risk: the risk of a threat to the security of an organisation, its personnel or its own or other's intellectual property arising from that organisation's failure to protect sensitive information emerging from a grant award; and
- the correct categorisation and application of tax relief on research and development according to the HM Treasury Consolidating Budget Guide.

**Risk Management in Grant Management and Delivery**

22. Types of risk relevant to the grant management system include:

- structural arrangements to manage grant making are not effective;
- the overall control framework is not effective or efficient;
- inadequate governance arrangements to manage and support grant making decisions;
- no process exists to escalate significant grant risks or issues;

- national security risks have not been considered or mitigated where it is necessary, for example in relation to sensitive research with dual military or civilian uses or where grant awards may be diverted to fund extremism;
- insufficient guidance and advice is made available for colleagues across departments to enable consistent and effective grant making;
- the limited capacity and capability of those involved in managing the grant making process;
- the extent to which grants are subject to competition;
- ministerial requests to make direct awards that may contravene Managing Public Money;
- insufficient focus on responsible grant making by grant recipients, resulting in reputational damage;
- the tone from the top underplays the risks to the scheme;
- second line assurance activity is not sufficient or effective; and,
- grant systems do not support prompt or efficient payment.
- inadequate systems to detect and/or prevent financial loss arising from fraud or the misappropriation of funds

**Security Risks**

23. The grant making organisation should be aware of their organisations' security strategy and arrangements, and should be aware of specific security risks to grant schemes, and incorporate these into their risk assessments. Security risks can be categorised by: physical, personnel, cyber, technical and industry, with some examples to look for in grant schemes listed below (see also paragraph 19 above).

    - Physical: Integrate physical security into the design of government infrastructure ensuring preventative and protective measures are in place, considering measures such as access rights.
    - Personnel: Consider the security of those working on grant schemes or receiving the grants - are they all appropriately cleared? It is important to recognise inside threat as an on-going risk especially if staff are working from home as this risk of becoming disillusioned may be harder to spot.
    - Cyber: Think about how data is securely stored across the grant lifecycle by both the grant making organisation and the receiving organisation.
    - Technical: Ensure sensitive information is not at risk of exploitation by hostile actors.
    - Industry: Industry security is to protect the government from threats relating to contractors and suppliers having access to classified information, assets and estates. Appropriate security clauses should be added to the grant agreement where needed.

24. The grants Centre of Excellence (CoE) includes further policy guidance covering national security risk, including beneficial ownership, with specific clauses for use in grant agreements, which are cleared with Cabinet Office Legal Advisers. The document can be found in the Resource Library on the CoE, which can be accessed on the grants Centre of Excellence.

**Fraud Risk Assessment (FRA)**

25. Public sector organisations shall assess the risk of fraud within all grant spend. All grant schemes shall consider the impact of fraud over and above financial loss. This may include reputational damage; the impairment of the achievement of government policy objectives; physical or societal harm as well as risks to national security, including terrorist financing, hostile state actors and organised crime.

26. Every grant scheme shall have a documented assessment of their fraud risk which should be proportionate to the size and perceived risk of the grant scheme within the organisation.

27. High risk grants schemes are required to produce a detailed FRA, as set out in the '*Government Counter Fraud Profession Standard for Fraud Risk Assessments'* – please email gcfp@cabinetoffice.gov.uk for a copy.

28. As a minimum, all grant schemes should consider common fraud risks including: falsified eligibility, misuse of grant funding, hijacked identities, inflated costs, claims for work not performed, duplicate funding, deliberate claims for excessive funding, collusion between the applicant and an internal actor, changing bank details to a fraudster's account, and claims from entities which do not exist or are not operating.

29. The detailed FRA shall be maintained through the life of the scheme to reflect changes to risk, controls and risk tolerance to ensure there is continuing focus on fraud prevention, detection and recovery in line with the *GCFP standard for FRAs* risk management cycle.

30. Actual instances of prevented and detected fraud should be reflected in the detailed FRA by identifying any additional risks and/or consideration of whether risk scores for existing risks need changing.

31. It is important for the organisations' Counter Fraud Function to have an overview of all its grant schemes from a fraud risk perspective, as set out in the *GCFP Standard for FRAs* which provides further detail on how to do high-level and intermediate fraud risk assessments. This should inform the organisation's counter fraud strategy.

32. FRAs should be performed in line with the *GCFP Standard for FRAs*. Where an FRA professional is not available to support the scheme, those working on the scheme are responsible for writing the FRA in line with the remainder of the *GCFP Standard for FRAs* and should note on the FRA that it has been prepared without the support of a professional.

## Controls

33. Controls are any action taken by management, the board and other accountable parties to manage risk and increase the likelihood that identified objectives will be achieved.

34. Departments and ALBs should ensure that there are proportionate, risk based, efficient and effective controls in place at every stage of the grant administration process. Effective risk management and control for the whole grant management system is a specific responsibility of the department's Senior Officer Accountable, supported by the SOR for individual schemes and awards.

35. Where grants administration is part of ALB activity departments should ensure that any framework document, Memorandum of Understanding, and other governance documents that govern the relationship between the department and the ALB contain appropriate reference to supporting a control framework related to grant making and that they provide assurance, via an agreed format, that the framework is operating effectively.

36. The existence and effectiveness of controls should be considered during every stage of the grant making process. They should typically entail a range of preventative, directive, deterrent, detective and corrective controls for every stage of the process as described below:

**Activities to support preventative controls** include:

- appropriate segregation of duties when setting up and paying grant recipients;
- involvement of finance and commercial in setting up grant schemes and making awards;
- procedures to identify and prevent conflicts of interest;
- effective risk management.

**Directive controls** include:

- delegation letters to SROs;
- guidance and defined procedures on how grants are to be set up and managed;
- detailed grant agreements;
- requirement for those involved to undertake training; and
- fraud risk assessments and counter fraud strategy.

**Deterrent controls** include**:**

- the legal right to apply penalties and sanctions;
- warnings of the consequences of making false declarations.

**Detective controls** include:

- regular due diligence checks;
- reviews of payments against invoices;

- internal fraud landscape reviews and internal audits;
- compliance checks by internal control teams; and
- on-site inspections, including having the right to continue to inspect for specified periods of time in the future once a grant payment has been made to ensure grant conditions are maintained.

**Corrective controls include:**

- having the legal right to undertake inspections or request documentation and to effect recovery where irregularity is established;
- having a strategy for recovering overpayments.

### Department and ALB Grant Management Controls

37. Departments and grant making ALBs should ensure that controls to manage and monitor grant administration are effective and efficient - core controls include:

- an effective Senior Officer Accountable to manage and direct the grant making;
- ensuring that those involved in managing the grant activity have sufficient capability and capacity, whether undertaken in a central team or a more dispersed one;
- appropriate systems to store grant management information in a consistent way and to enable analysis and provide management information and reporting;
- risk management, including fraud risk assessment and assessment of national security risk is effectively embedded within grant management processes;
- compliance with the Grants Functional Standard;
- compliance with elements of other Grants Functional Standards that may apply, such as Finance, Counter Fraud, Commercial and Analysis, and also with the finance Global Process Design Principles for grants, the Data Protection Act and/ or the General Data Protection Regulation;
- processes to ensure there is strong awareness of the need to seek ministerial direction where the Accounting Officer considers the scheme is novel, contentious or repercussive;
- payment systems conforming to the finance Global Process Design Principles support prompt and accurate payments to grant recipients; and
- procedures to identity and address conflicts of interest.

### Grant Recipient Controls

38. Departments and grant making ALBs should consider the controls that they place on grant recipients during the initial development stages. The *grant agreement* will detail those controls - they may include:

- categories of eligible and ineligible expenditure;
- regular reporting of progress- monthly or quarterly- to the department and ALB on progress against the objectives of the grant;
- regular reporting of expenditure, within eligible categories, and reconciliation of spend to invoices;
- retention of financial records evidencing all grant spend for future audit;

- retaining the right of the department or ALB to audit the activities of the grant recipient related to the use of the grant; and
- requiring the grant recipient to nominate an Accountable Officer to sign off the accounts and formally confirm the funding was spent only on eligible expenditure.

39. Departments and grant making ALBs should consider the impact of any controls placed on the grant recipients to ensure that collectively they do not create a disproportionate burden - an excessive control regime may actually reduce compliance with key controls.

**Public Body and Charitable Organisation Controls**

40. Departments and grant making ALBs should consider the controls needed when grants are awarded to other public bodies (such as police authorities) or to charities.

41. There should not be a presumption that fewer controls are needed because the grant recipient is a public orientated or worthy body such as a charity. Specific controls include those provided to manage other grant recipients, set out above. Additional controls may also include:

- confirmation that funding used to fund staff is being spent on those specific posts, rather than other posts and activities;
- assurance from local audit teams that funding is being used effectively and only for eligible expenditure;
- due diligence on applicants to confirm they are eligible and the value of grant funding is not far in excess of their annual turnover, regardless of the Department or ALB's relationship with the entity; and
- there should be an assessment as to whether the funding constitutes the majority of the organisation's total funding and whether that is appropriate. In that respect exit plans may need to be agreed with the organisation, for instance to increase other funding sources and reduce reliance on government support.

42. There are specific arrangements related to controls over grant monies issued to public entities such as Local Authorities and certain Local Enterprise Partnerships. Departments should comply with guidance issued by MHCLG on grants to these entities.

**Grant Fraud Controls**

43. The key intention of controls is to reduce the likelihood and impact of fraud and other similar risks such as conflicts of interest. Controls to reduce fraud should form part of the thinking throughout the lifecycle of a grant scheme, from fraud risk assessment at the design and development stage, through to checks that should be undertaken at the final evaluation stage.

44. To ensure a consistent approach the government applies the legal definition of fraud (as set out in the Fraud Act 2006): "The making of a false representation or failing to disclose relevant information, or the abuse of position, in order to make a financial gain or misappropriate assets"

**Common Types of Grant Fraud:**

- falsifying information in grant applications or contract proposals;
- misuse of grant funding, such as charging personal expenses as business expenses against the grant;
- stealing the identity of a business or charity to claim a grant;
- charging for costs which have not been incurred, are inflated or are not attributable to the grant;
- charging for inflated labour costs or hours, or categories of labour which have not been incurred, for example fictitious employees, contractors or consultants;
- deliberately failing to comply with grant conditions (including post-payment), through the non-delivery of agreed elements, removal of agreed elements, or delivery to an inadequate standard;
- grant application from a fictitious or '*shell'* company[1], or an entity which is not operating;
- billing more than one grant or contract for the same work;
- falsifying test results, outcomes or other data;
- amending bank details to divert payment to a fraudster's bank account;
- substituting approved materials with unauthorised products; and
- misrepresenting a project's status to continue receiving government funds.

**Reduce the risk of fraud by:**

- taking a proportionate approach to managing the risk of fraud within grants as part of the organisation's *Counter Fraud, Bribery and Corruption Strategy*;
- training, education, and awareness of all staff on fraud risks;
- ensuring organisations have appropriate whistleblowing arrangements to support the reporting of fraud or other related issues;
- clearly communicating the risk of fraud at senior leadership level to set the tone from the top;
- setting clear eligibility criteria;
- actively designing fraud out of the grant process at the initial development stages;
- reviewing and updating the fraud risk assessment at intervals throughout the life of the scheme;
- undertaking proportionate due diligence at the initial award stage and also at intervals during the delivery period;
- ensuring controls in the fraud risk assessment are operating effectively;
- the use of data analytics to proactively look for potential fraud;
- undertaking fraud loss measurement exercises to estimate and understand the potential for fraud loss through identified residual fraud risks;
- embedding detective controls and ensuring they are operating effectively; and,
- site visits for high-value and high-risk grants.

[1] A shell company is defined as an inactive company used as a vehicle for various financial manoeuvres, or kept dormant for future use in some other capacity.

## Due Diligence

45. Due diligence refers to a process, or set of processes, to appraise:
    - performance;
    - eligibility;
    - basic financial checks;
    - past track record; and
    - background of the grant applicant.

46. These are part of initial checks performed during the assessment of applications, but may be refreshed during the lifecycle of the grant if proportionate. Robust due diligence processes help to mitigate reputational risks, potential fraud, potential national security risks, errors and financial loss.

47. Due diligence is important to:
    - confirm that a grant recipient understands and can manage the risks associated with grants and that they are working with organisations, entities, or institutions that are likely to assist them with successfully achieving their objectives;
    - identify potential early warning signs and avoid bad grant award decisions; and
    - support information gathering, which is useful for ensuring all checks are completed prior to the application proceeding to the next stage of the grant making process.

48. Departments should consider the resources to be allocated for due diligence, in line with the following principles:

    - resources allocated to the due diligence process are at the discretion of departments - departments are free to conduct due diligence themselves, or outsource as appropriate;
    - ensure that the right people with the right skills are assigned to the task and consider the resource allocation, based on the thresholds of grants outlined in the diagram below, for example for grants with a value of less than £100,000 the due diligence checks can be undertaken by the grant or policy team with support from finance and commercial;
    - for complex and contentious grants or those above £100,000, consider using staff with specialist skills as appropriate, for example accountants, fraud investigators, lawyers, etc.; and
    - there is no prescription on the seniority of those conducting due diligence checks, but those involved should have the powers and authority to carry out due diligence in full and the SOR be able to confidently sign-off on the findings from due diligence checks.

Departments and their grant making ALBs should develop due diligence models based on best practice and guidance that are proportional to the value of the grant, as demonstrated in the table below. The mandatory due diligence checks reflect spend and risk.

**Table: Mandatory due diligence checks**

| Grants award below £100k and Low Risk | Grant awards £100k - £5milion and/ or High Risk | Grant awards above £5million |
|---|---|---|
| Checks to be conducted by the grant or policy team with support from finance. | Due diligence conducted by internal finance professionals. | Due diligence to be compliant with HMT guidelines and to be conducted by finance professionals with support from external experts if required. |
| Specific requirements:<br>● Check if the individual or entity meets the eligibility criteria.<br>● Individual legal entity checks (Companies House and Charities Commission). These shall include a check on whether the entity is trading.<br>● Financial viability checks.<br>● Check if the individual or entity is able to deliver the grant; such as confirming their day-to-day activities are in line with the grant purpose, and the grant does not significantly exceed the size of their business.<br>● Assess Ultimate Beneficial Owners and linked companies and geographies for National Security risk.<br>● Check if the individual or organisation has received another source of government funding (GGIS) and consider evaluating feedback. | Further requirements in addition to the previous column:<br>● ***Financial***: cash flow and reserves- consider the impact of the recipient taking on outcome-based grant. Check for evidence of financial distress or over-reliance on grant funding.<br>● ***Commercial***: consider the impact on competitors or the market.<br>● ***Operational***: investigate if the grant recipient has the people, processes and products required for delivery – a site visit advisable.<br>● ***Governance***: is the governance structure robust?<br>● ***Reputational:*** Perform adverse media checks | Further requirements in addition to the previous two columns:<br>● A mandatory site visit and detailed analysis of financial accounts.<br>● Quarterly reviews of performance.<br>● Consider that a non-executive member sits on the programme board. |

49. The following due diligence checks should be considered:

**Financial:**

- the short and medium-term financial viability of the applicant organisation, including the extent of reliance on grant and other government funding;
- use of other sources of data such as 360Giving and the EU's Financial Transparency System to assess performance track record and the risk of overlapping funding;
- financial stability of the applicant e.g. grant to revenue ratio, assessment of profitability, liquidity, debt commitments, etc;
- bank account verification prior to any payments being made – including location, where a UK based account is specified; and ensuring the bank account matches the name and type of applicant e.g. personal or business account; and
- late financial reporting.

**Operational:**

- type of applicant i.e. individuals, organisations (public sector, private sector), new applicants;
- the applicant's previous experience, if any, in managing grant awards;
- the applicant's performance under other government grant awards;
- the length of grant period, including whether it has been renewed over several years;
- grant value and whether the value is appropriate for the outcome delivered and the size of the applicant organisation;
- capability, track record and credibility;
- whether the applicant has adequate internal, fiscal and administrative controls and has capacity to deliver;
- considerations around capacity where the grant awarded is in excess of the organisation's annual turnover; and
- website and web presence (via a search engine).

**Governance:**

- ownership or control structure of the organisation;
- applicant's eligibility, verifying the application to third party evidence e.g. Companies House, HMRC data, third party databases or bank statements;
- assessment of whether the applicant is genuine e.g. businesses which are not operating, whose identities have been hijacked, or shell companies;
- verification of identity and/ or legal status via legal teams including checks against Companies House and the Charities Commission as well as checks of legal documentation such as certificates of incorporation or articles of association, where applicable;
- directors are active on the Companies House register;
- the track record of the directors associated with the applicant organisation and whether historical poor performance is indicative of a higher risk of misuse of the funding;
- whether the disclosed directors or trustees have links to other grant recipients and whether there is any risk associated with those shared directorships;
- address search, use of a Post Office (PO) box;

- checks to establish the *beneficial ownership* in relation to the applicant organisation to ensure that departments and grant making ALBs know who has significant control over an organisation;
- any adverse information regarding the applicant's officials or key employees that calls into question the applicant's ability to perform satisfactorily; and
- turnover of board members

**Security:**

- research to investigate specific areas of risks, for example conflicts of interest, anti-money laundering (AML), countering terrorist financing (CTF), bribery and other criminal activities associated with the activity being funded;
- an assessment of any *national security, export control or organisational security* risks; including other companies or directors in the Group structure and potential use of subcontractors;
- risks to national security e.g. overseas ownership or financing, linked entities which are overseas, access to possible dual use Intellectual Property, risk of terrorist financing, or access to UK border controls; and
- any adverse information on the applicant's international collaboration partners, whose links to research, institutions or authoritarian states may present *national security risks* or reputational risks to the organisation and applicant.

50. For grants in the fields of research, innovation, technology and infrastructure, the following checks should be considered - whether:

- the applicant intends to collaborate, or has a history of collaboration, with foreign organisations of potential *national security* concern, for example, those that are subject to export restrictions or thought to conduct research on behalf of the military or intelligence agencies of hostile foreign states;
- the applicant has proportionate measures in place to protect sensitive information or technology arising from the grant award, for example, physical, personnel, and cyber security policies;
- the organisation is itself or has directors or owner that are subject to the UK or international sanctions regimes;
- the Export Control Joint Unit should be consulted; and
- the institution is compliant with the Academic Technology Approval Scheme.

Each of these has its own conditions and complying with one will not satisfy the conditions of the others. Failure to comply with legislation may expose the grant recipient to criminal investigation.

51. The three potential outcomes from the due diligence process are:

- **Fully approved**: a recommendation to proceed with the award.
- **Partially approved**: depending on the concerns raised a variety of options are available such as a reduction in grant value to lessen the department's exposure, further enhanced due diligence steps and considering funding in tranches with enhanced monitoring.
- **Not approved**: a recommendation not to proceed with the award.

## Assurance

### Governance processes

52. Departments and grant making ALBs should obtain appropriate assurance over the effectiveness of risk management and controls, as part of governance processes. This can be achieved through internal audits, internal reviews and other assurance mechanisms. The level and range of assurance depends on the departmental risk appetite, size and type of grants and the impact on business objectives. Ultimately this will inform the end of year reporting process.

### Assurance framework related to grants

53. Departments and grant making ALBs with significant grants expenditure should map out the *three lines of defence* (see below) to support effective risk and control management in relation to grants. Further detail on ensuring the department or ALB has an effective and efficient assurance framework is detailed in the HM Treasury assurance frameworks guidance. Mapping out the *three lines of defence* supports the identification of weaknesses and gaps in assurance, such as whether second line assurance activity is sufficient. The Government Internal Audit Agency (GIAA) can provide further advice on how best to undertake this exercise.

54. By defining the sources of assurance in three broad categories, it helps to understand how each contributes to the overall level of assurance provided and how best they can be integrated and mutually supportive. For example, management checks and assurances could be harnessed to provide coverage of routine operations as the first line of assurance, as a second line of assurance a team/individual within the department that is separate from the day to day running of the grants team should perform periodic objective tests to the effectiveness of grant making arrangements and internal audit could targeted at riskier or more complex areas as the third line of assurance.

55. Departments and grant making ALBs should ensure that assurances are obtained as part of ongoing governance processes from those operating in the three lines of defence.

56. From an assurance perspective, as a minimum, the development of business plans, the competitive requirements of grant making, the robustness of grant funding agreements should be reviewed, together with the requirements to conduct fraud risk assessments and due diligence on grant recipients (where applicable).

### Reporting of assurances related to grants

57. Departments and grant making ALBs shall have a process to ensure that important assurance reports are shared with their senior governance boards and audit committee for review and comment - this includes:

- Cabinet Office led grant maturity assessments, which provide an important source of assurance by issuing an assessment of grant making in the department. The scores shall be discussed by the department's boards and audit committee, along with any action plans to improve the scores;
- Internal audit reports and assurances on grant management; and

- Infrastructure and Project Authority (IPA) work.

58. As required by HM Treasury guidance, responsibilities related to grant management shall be clearly defined in departments' annual Accounting Officer System Statement (AOSS) – the '7th Section' of the guidance sets out the requirements for grants. The AOSS provides visibility against required assurances from those with responsibility for the management of the department's grants portfolio.

59. Principal Accounting Officers remain accountable for grant funding issued to ALBs. As a result, with respect to grant funding Accounting Officers should:

- seek assurance that ALBs are complying with the Grants Functional Standard and associated minimum requirements for general grants and have an appropriate assurance framework;
- ensure that ALB framework and governance documents include a reference to the requirement to comply with the Grants Functional Standard - review of the efficacy of governance documents should be undertaken at an appropriate point;
- ensure there is a process to escalate risks from the ALB to the department; and,
- accurately outline responsibilities related to grant management within their AOSS.

## Research funding

### Research funding may pose a risk to national security or breach export controls.

#### Protecting research

60. The Centre for the Protection of National Infrastructure has launched Trusted Research, a new campaign to support the integrity of the system of international research collaboration, which is vital to the continued success of the UK's research and innovation sector. If you manage research and innovation grants please familiarise yourself with the aims and objectives of the campaign and promote it to your grant recipients as appropriate.

61. The expectation is that grant making departments and ALBs shall ensure grant recipients provide a commitment that Intellectual Property (IP) generated from taxpayer funded research will be of benefit to UK prosperity.

#### Understanding the risk

62. There is a risk that technology developed as part of an international research collaboration could be misused by a foreign state to control or repress their population.

63. Dual use technology, which may be subject to export control, could be adapted by a foreign state's military against UK interests. Good due diligence should include a consideration of potential *national security* concerns surrounding the award of a grant. In such cases, failure to protect IP and a lack of due diligence into collaborators could result in sensitive technology being transferred to and misused by a hostile foreign

state. The loss of sensitive IP and technology has the potential to damage the prosperity of the UK.

## Further Resources

64. In adhering to this minimum requirement and additional guidance, and in addition to the references and resources highlighted earlier in this document, organisations may want to consider the following in particular:

- The HM Treasury Orange Book: Management of Risk – Principles and Concepts.
- Each government organisation's internal guidance on risk management, controls and assurance, particularly where it details arrangements related to grant risk appetite and management of related risks and controls.
- The Centre for the Protection of National Infrastructure (CPNI) and National Cyber Security Centre (NCSC) Trusted Research guidance.

65. Organisations should also make full use of wider resources available through the grants Centre of Excellence (CoE)