

Annex 1.A Risk and materiality assessments

A risk and materiality assessment can be used to guide various decisions in relation to the set-up of the financial management capacity assessment.

Risk is an expression for a potential loss and different risk descriptors can be used to describe or get a sense of the risk level. Materiality can be understood as importance or significance and, similarly, different materiality descriptors can be used to get a measure for how important it will be to avoid the risks materialising.

Considerations of risk relate to the partner, whereas considerations of materiality relate to the grant.

Risk considerations

- Size of partner organisation, e.g. turnover, staff hours dedicated to financial management. The type of the partner may play a role when assessing the risk, such as NGO vs. public institution. Risk is typically higher, if the partner organisation has limited staff resources.
- Experience of partner organisation, e.g. number of successful engagements managed, years in business, no previous history of mismanagement. Risk is typically higher, if the partner organisation is newly established or has no/limited experience or has a history of mismanagement.
- Span of control, e.g. number of partners involved, geographical scope etc. Risk is typically higher, the larger the number of partners/sub-partners and countries involved.

Considerations of materiality (importance)

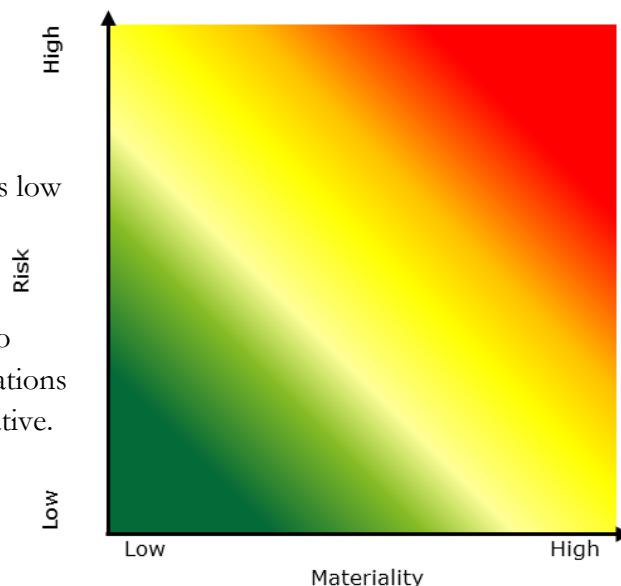
- Size of amount granted. The larger the grant (in term of nominal value), the more important it will typically be to assure a high level of administrative and financial management capacity.
- Size of grant relative to the turnover of the organisation. Materiality will typically be considered higher if the funds granted make up a large part of the total turnover of the organisation.
- Political significance. A smaller nominal amount can, in some instances, have a high degree of materiality, e.g. because of political attention, considerations of principle, low tolerance for failure, etc.

The higher the risk and the higher the materiality, the more extensive the financial management capacity assessment carried out should be. In cases with high risk and materiality it will typically be more important to increase the audit efforts and potentially include more compliance and performance elements.

Risk and materiality cannot be considered in isolation – risk should be weighed against materiality and vice versa. An illustration of the risk and materiality considerations guiding the decision on the scope of the financial capacity assessment is presented in a simple risk matrix (also called heat map).

Red indicates large risk and materiality, green indicates low risk and low materiality.

The risk and materiality descriptors below can be used to estimate if risk respectively materiality tends to be larger or smaller. The risk and materiality considerations below are only indicative and the descriptors are tentative. With more experience, it will be possible to tune the risk/materiality considerations to the particulars of the context in which grants and partners operate.



The matrix can also be used to consider the extent of other quality assurance and oversight activities.

Risk descriptor	Lower risk	Higher risk
Size of partner organization	Small turnover (<10 million DKK)	Large turnover (>10 million DKK)
Number of FTEs in partner finance function	High number of FTEs in finance function (> 5 finance FTEs)	Low number of FTEs in finance function (< 5 FTEs)
Experience of partner <ul style="list-style-type: none"> Years in business Number of successful engagements History of mismanagement 	<ul style="list-style-type: none"> > 2 years in business > 5 succesful engagements managed No previous history of mismanagement 	<ul style="list-style-type: none"> < 2 years in business < 5 succesful engagements managed History of previous mismanagement
Span of control <ul style="list-style-type: none"> Number of partners involved Geographical scope 	<ul style="list-style-type: none"> Few partners/sub-partners involved Small geographical scope; activities in one country 	<ul style="list-style-type: none"> Multiple partners/sub-partners involved Large geographical scope; activities in multiple countries
Corruption risk	Low corruption risk	High corruption risk

Materiality descriptor	Lower materiality	Higher materiality
Size of amount granted (nominal value)	<10 million DKK)	>10 million DKK
Size of grant relative to partner turnover	Small ratio (<10%)	Large ratio (>10%)
Grant period	≤ 1 year	Multi-annual
Political significance	Low political significance; high tolerance for failure (risk tolerant)	High political significance; low tolerance of failure (risk averse)