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Grant Auditing in Focus: Perspectives of State Auditors and Beneficiaries on Efficiency and Challenges

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Grant Auditing in Focus: Perspectives of State Auditors and Beneficiaries on Efficiency and Challenges

Abstract

This study analyses the significance, effects, and challenges of grant auditing in the public sector of the Federation of Bosnia and Herzegovina, focusing on identifying systemic weaknesses that limit the effectiveness of public fund management. Given that transfers account for 50–73% of the FBiH budget, their auditing represents a critical component of public financial oversight. The research employs a combination of quantitative and qualitative methods, integrating data from three sources: the views of state auditors (n=60), the views of audit subjects (n=100), and a systematic content analysis of audit reports for the period 2010–2023. Through seven research questions, the paper explores the significance of grant auditing, its impact on management efficiency and transparency, the frequency and types of irregularities, as well as the quality and feasibility of audit recommendations.

Key findings reveal a paradoxical situation. While state auditors clearly recognise the strategic importance of grant auditing (M=4.40), and audit subjects assess audit recommendations as justified (M=4.03) and clear (M=4.03), there exists a substantial implementation gap. The feasibility of recommendations was rated considerably lower (M=3.37). The study identifies a cascading effect of systemic weaknesses that extends throughout the entire grant lifecycle, with the most critical areas being the complete absence of performance evaluation, unmeasurable allocation criteria, and inadequate supervision. Non-profit organisations were identified as the most vulnerable category of grant beneficiaries (M=3.87 vs. 2.85 for public enterprises).

The most significant finding relates to the critical level of the accountability deficit. The lack of sanctions for managers (M=4.00) and political pressure from higher levels (M=3.73) were identified as key barriers to the implementation of recommendations, while workload was assessed as the least significant factor (M=2.73). This indicates that the problem is not technical (the quality of recommendations) or capacity-related (lack of time), but rather a fundamental issue of governance and political will. The study concludes that transformation is possible through holistic reforms that simultaneously address accountability mechanisms, systemic grant management procedures, institutional capacities, and protection against political interference.

Key words: Grant auditing, public sector accountability, audit recommendations, irregularities, compliance.

JEL Classifications: M40; M41; M42

I. INTRODUCTION

In modern democracies, public sector auditing represents a key instrument for ensuring accountability, transparency, and efficiency in the management of public finances (INTOSAI, 2019). Through the systematic assessment of financial transactions, operations, and institutional performance, auditing not only identifies irregularities but also lays the foundations for continuous improvement in the public sector and for strengthening citizens' trust in public institutions (Reichborn-Kjennerud & Vabo, 2017; Stapenhurst & Titsworth, 2001). Among various forms of public expenditure, grants occupy a distinctive position due to their dual nature: they are simultaneously an instrument of public policy (a means for achieving strategic objectives) and an area of high fiscal risk (potential for inefficiency and misuse). Grants represent non-repayable monetary or material transfers that public institutions allocate to individuals, non-profit organisations, business entities, or lower levels of government, in order to support specific activities, projects, or policies that contribute to the realisation of the public interest.

Unlike direct public spending, where public institutions retain full control over the use of funds, grants involve the transfer of resources to external actors, which inherently increases risks related to transparency, compliance with the legal framework, and the achievement of intended outcomes. This transfer of control makes grant auditing critically important, yet more challenging compared to the auditing of regular budget expenditures.

The context of the Federation of Bosnia and Herzegovina makes the issue of grant auditing particularly significant: according to budget framework documents, during the period 2022–2025, current and capital transfers account for over 70% of total budget expenditure, with current transfers alone representing approximately 50% (Government of the Federation of Bosnia and Herzegovina, 2022). This implies that almost half of public funds are channelled through grant mechanisms, amounting to billions of convertible marks annually.

Despite the substantial budgetary share of grants and the regular audits conducted by the Audit Office of the Institutions of the FBiH, empirical evidence on the effectiveness of grant auditing remains limited. Preliminary findings indicate the persistence of similar issues year after year, unclear criteria, non-transparent allocation procedures, weak expenditure oversight, and the absence of performance evaluation, all of which raise a critical question: why do audit recommendations fail to lead to substantive improvements in practice?

This research aims to fill this empirical gap through a systematic analysis of grant auditing in the FBiH, examining not only the frequency and types of irregularities, but also the deeper dynamics between auditors and auditees, perceptions of the importance of auditing, the quality and feasibility of audit recommendations, and the barriers that hinder their implementation.

II. BACKGROUND

INTOSAI is the international organisation of supreme audit institutions responsible for developing global standards for public sector auditing. ISSAI 100 represents a fundamental document that defines the key principles of public sector auditing, including independence, objectivity, competence, and professional due care. The document emphasises that the purpose of public sector auditing is to strengthen accountability, transparency, and integrity in public administration, as well as to improve the management of public funds. The standard distinguishes three types of audit, financial audit, compliance audit, and performance audit, where grant auditing may encompass all three dimensions. For this research, ISSAI 100 provides the normative framework for understanding the expectations of grant auditing and the criteria for assessing its effectiveness (INTOSAI, 2019).

Conversely, the OECD (2019) document represents the most comprehensive international guide for public grant management, based on an analysis of best practices from 34 countries. It identifies key principles that should be adhered to: (1) clarity of strategic objectives, (2) transparency in grant allocation, (3) measurable selection criteria, (4) effective monitoring of implementation, (5) evaluation of results and impact, (6) prevention of conflicts of interest, and (7) continuous learning and system improvement. Particularly relevant is the principle that the grant system must be results-oriented, not merely compliance-oriented. The OECD stresses that many countries struggle with a “compliance mentality”, where the focus is placed on procedural correctness (whether the money was properly recorded) rather than on the essential question (whether the money achieved the intended results). This document provides a benchmarking framework for assessing the quality of grant management in the Federation of Bosnia and Herzegovina.

Grant and transfer programme auditing constitutes a relatively specific field within the broader literature on public sector auditing. While the literature on financial and performance auditing is extensive, empirical studies that focus specifically on grant auditing are more limited, particularly in the context of transition economies and the Western Balkans.

Blöndal et al. (2009) analyse the Austrian budget system with a particular focus on the management of transfers (grants) to lower levels of government and non-governmental organisations. The authors document that Austria has developed a sophisticated performance-based grant allocation system, where grant disbursement is linked to the achievement of specific output and outcome indicators. The key finding is that effective grant auditing requires clearly defined ex-ante criteria and regular ex-post evaluations conducted by an independent audit institution. The study shows that, in the Austrian case, the implementation rate of audit recommendations is high (over 70%), due to strong accountability mechanisms, including parliamentary oversight and public hearings. Fölscher (2007) analyses budget transparency across several countries, with particular attention to special transfers and grants. The findings reveal that even in countries with relatively transparent budgetary processes, grants often represent a “black box” — characterised by unclear criteria, non-transparent decision-making processes, and limited access to information on final beneficiaries. The author argues that audit institutions play a critical role in demystifying grants through detailed audits that not only document financial correctness but also analyse procedural and performance-related dimensions. He particularly emphasises the importance of public accessibility of audit reports as a mechanism for pressuring institutions to improve their practices. Similarly, the research by Selesković, Gadžo & Veledar (2024) confirms structural issues concerning unclear criteria for grant allocation, inadequate oversight, and weak performance evaluation.

Raudla et al. (2015) conduct a rigorous empirical analysis of the impact of performance audits on Estonian public organisations, including a specific examination of grant programme audits. The authors document that grant audits significantly influence organisational practices, particularly in terms of procedural documentation and strengthening internal controls. However, they find that the impact on allocative efficiency and the achievement of strategic goals is more limited. The key factors determining the implementation of recommendations include the clarity and specificity of recommendations, the availability of budgetary resources for implementation, and the existence of political support at the ministerial level. Johnsen et al. (2019) carry out a comparative analysis of performance audits in Nordic countries, with a particular focus on audits of transfer programmes and grants to local authorities. The key finding is that all four countries have well-developed grant auditing systems, albeit with differing approaches: Norway emphasises compliance, Denmark performance, Finland a risk-based approach, and Sweden a citizen perspective. Despite these differences, the implementation rate of recommendations remains consistently high (65–80%) across all four countries, which the authors attribute to a strong culture of accountability, high institutional capacities of audited entities, and effective parliamentary follow-up. This study provides a valuable benchmark for understanding the kinds of results achievable in contexts with strong institutional frameworks.

III. RESEARCH METHODOLOGY

The objective of this research is to analyse the significance and effects of grant auditing within the public sector and budgetary expenditure, with particular emphasis on the efficiency of grant management, compliance with legal regulations, and transparency. The study aims to identify the frequency and types of irregularities occurring during grant audits, and to examine the extent to which these irregularities influence auditors' opinions on the financial statements and compliance of audited entities. Furthermore, the research seeks to evaluate the quality and feasibility of audit recommendations, as well as the reasons why audited entities fail to implement them. In line with the defined objective, the following research questions have been formulated:

RQ1: What is the significance of grant auditing within public sector auditing and budgetary expenditure?

RQ2: To what extent does continuous auditing contribute to greater efficiency in grant management, improved legal compliance, and increased transparency?

RQ3: To what extent have the identified irregularities in grant audits influenced auditors' opinions on the financial statements and compliance of audited entities?

RQ4: What is the frequency of irregularities by type of grant?

RQ5: What are the most common irregularities identified during grant audits?

RQ6: To what extent are audit recommendations considered justified, clear, and feasible from the perspective of audited entities?

RQ7: What are the reasons for the failure of audited entities to implement audit recommendations related to grant management?

The research is based on a combination of quantitative and qualitative methods of data analysis, integrating both secondary and primary sources of information to ensure a comprehensive approach to the issue.

The analysis of secondary data includes a systematic review of audit reports on grants in the public sector of the Federation of Bosnia and Herzegovina for the period 2010-2023. The sample consists of reports issued by the Audit Office of the Institutions of the Federation of Bosnia and Herzegovina, covering ten cantons and thirteen ministries that regularly allocate grants. This part of the research focuses on identifying the frequency and types of irregularities, as well as their impact on financial reporting and audit opinions.

The collection of primary data was conducted through two structured questionnaires:

- Sample of state auditors: 60 auditors employed at the Audit Office of the Institutions of the Federation of Bosnia and Herzegovina.
- Sample of audited entities: 100 representatives of institutions subject to grant audits.

Both questionnaires employ a five-point Likert scale (1 - strongly disagree, to 5 - strongly agree) to measure perceptions regarding the importance of grant auditing, the justification and feasibility of audit recommendations, and the reasons for non-implementation of those recommendations. The collected data were analysed using descriptive statistics (frequencies, percentages, measures of central tendency) and analysis of variance (ANOVA) to test differences between groups.

The triangulation of data from audit reports (objective data on irregularities) and from the perceptions of state auditors and audited entities (subjective views) enables a holistic understanding of the challenges in grant auditing. This approach provides deeper insight not only into what the problems in grant management are, but also why these problems persist and how they may be addressed. Rather than viewing individual aspects in isolation, the research aims to understand the complex interactions between the regulatory framework, auditing practices, institutional capacities of audited entities, and the organisational culture of accountability in the public sector.

IV. RESULTS AND DISCUSSION

The research results are presented individually for each of the seven research questions. In this way, the findings are intended to be communicated more clearly to the reader. A summary comment on the research results as a whole is provided at the end.

RQ 1. *The significance of grant auditing within public sector auditing and budgetary expenditure.*

The opinions of state auditors regarding the importance of grant auditing within the context of public sector auditing are presented in Table 1. The results indicate a high level of consensus among auditors about the relevance of grant auditing, with an average score of 4.40 (SD = 0.85). As many as 83.33% of auditors agreed or strongly agreed with the statement that grant auditing is significant for public sector auditing, while only 3.33% expressed disagreement. One of the reasons for such a high level of agreement is the fact that public institutions, ministries, and cantons allocate substantial amounts of grant funding.

Tabela 1. The assessment of state auditors on the significance of grant audits

The significance of grant auditing within public sector auditing						
Rating	Frequency	Relative f (%)	AVERAGE	STDEV	MEDIAN	VAR
1 - Strongly disagree	0	0,00	4.40	0.8477	5.00	0.7186
2 - Disagree	2	3.33				
3 - Neutral	8	13.33				
4 - Agree	14	23.33				
5 - Strongly agree	36	60.00				
SUM	60	100.00				

Source: authors' processing

Such a high level of agreement can be explained by the fact that public institutions, ministries, and cantons allocate substantial amounts through grants, which have a significant share in the overall budget expenditure. According to the Budget Execution Reports of the Federation of Bosnia and Herzegovina, the share of grants in the FBiH budget ranged between 40% and 50%. According to the FBiH framework budget document for the period 2023-2025, current and capital transfers account for the largest share of expenditure at 72.7 percent (Government of FBiH, 2022). This high percentage of grants in total budget expenditure highlights the need for thorough audit verification to ensure efficient, economical, and transparent management of public funds.

In order to examine whether the length of work experience of state auditors affects the perception of the importance of grant auditing, a one-way analysis of variance (ANOVA) was conducted. The sample of 60 state auditors was divided into four groups according to years of work experience: 0–3 years (n=24, M=4.33, Var=0.93), 4–7 years (n=8, M=4.25, Var=0.79), 8–11 years (n=8, M=4.50, Var=0.86), and 11 or more years (n=20, M=4.50, Var=0.47).

Table 2. Results of the ANOVA test

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
0-3 years	24	104	4.333333	0.927536
4-7years	8	34	4.25	0.785714
8-11years	8	36	4.5	0.857143
11 and more	20	90	4.5	0.473684

ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	0.566667	3	0.188889	0.252855	0.858974	2.769431
Within Groups	41.83333	56	0.747024			
Total	42.4	59				

Source: authors' processing

The results of the ANOVA test indicate that there is no statistically significant difference between groups of auditors with varying lengths of work experience regarding their assessment of the importance of grant auditing ($F(3,56)=0.253$, $p=0.859$). Given that the p-value is substantially higher than the conventional significance level ($\alpha=0.05$), it can be concluded that all state auditors, regardless of years of work experience, rate the importance of grant auditing equally highly.

The research findings unequivocally confirm that state auditors perceive grant auditing as a critical component of public financial oversight. The consensus among auditors of different generations and experience levels suggests that this perception is grounded in actual practice and objective indicators of the volume and significance of grants in public expenditure. Particularly notable is the fact that 60% of auditors strongly agree with the statement regarding the importance of grant auditing, indicating not only a theoretical understanding of its significance but also practical experience with the risks and challenges associated with managing grants in the public sector. The high proportion of transfers in the budget (ranging from 50% to over 70% depending on classification) explains why auditors assign such importance to this area; errors, irregularities, or abuses in the grant system can have a materially significant impact on the overall financial condition and operations of the public sector. The absence of statistically significant differences between groups with varying experience levels suggests that awareness of the importance of grant auditing is present from the beginning of an auditing career, which may be the result of adequate education or early exposure to this issue in practice.

RQ 2. The impact of continuous state auditing on the efficiency of grant management, legal compliance, and transparency.

To examine perceptions regarding the contribution of continuous state auditing, we analysed the views of two key groups: state auditors ($n=60$) and representatives of audited entities ($n=100$). Respondents assessed the contribution of auditing across three dimensions: the efficiency of grant management, compliance with legal regulations, and transparency. The results are presented in Table 3.

Table 3. The impact of state auditing on grant management, legal compliance, and transparency

Rating	The contribution of state audit to the efficiency of grant management	The contribution of state audit of grants to better compliance with legal and other regulations	The contribution of state audit of grants to better transparency
Ratings of state auditors			
AVERAGE	3.58	3.58	3.67
STDEV	0.814	0.814	0.951
Ratings of audit subjects			
AVERAGE	3.23	3.56	3.66
STDEV	0.898	0.817	0.959

Source: authors' processing

Both groups of respondents rated transparency as the dimension most strongly influenced by state auditing ($M=3.67$ for auditors; $M=3.66$ for audited entities). The almost identical mean scores (a difference of only

0.01) indicate a high level of agreement between auditors and audited entities. This finding suggests that grant auditing, through the public release of reports and identified irregularities, effectively contributes to greater openness and visibility in the process of grant allocation and utilisation. Regarding the contribution to legal compliance, differences between the groups are minimal (M=3.58 for auditors; M=3.56 for audited entities, difference = 0.02). Both groups perceive that auditing has a moderately positive impact on improving compliance with the regulatory framework, which is understandable given that audit recommendations often directly address legal shortcomings in grant allocation and monitoring procedures. The most pronounced difference in views concerns the efficiency of grant management (M=3.58 for auditors; M=3.23 for audited entities, difference = 0.35). State auditors are more inclined to perceive that their work contributes to more efficient management systems, whereas audited entities hold a somewhat more reserved view. This difference may reflect differing perspectives: auditors assess the potential of their recommendations to improve systems, while audited entities evaluate the actual effects of implementation, which may be constrained by organisational, capacity, or political barriers.

The findings indicate that state auditing has a multidimensional but uneven impact on various aspects of grant management. The strongest effect on transparency is expected, as this is a direct consequence of audit reports being made publicly available and often receiving media attention. This finding is particularly encouraging, as transparency is a fundamental prerequisite for democratic oversight of public finances. The moderate impact on legal compliance suggests that auditing acts as an important, but not the sole, mechanism influencing regulatory adherence. Audit recommendations appear to contribute to improvement, but other factors (sanctions, training, political will) are also necessary to achieve more substantial results.

The lowest rating for management efficiency, especially from the perspective of audited entities, points to an implementation gap between audit recommendations and their actual effects on operational efficiency. This finding raises questions about the true feasibility of the recommendations and the extent to which institutions possess the necessary capacities (human, financial, organisational) to implement them. The relatively small difference in perspectives between auditors and audited entities (maximum 0.35 on a 5-point scale) suggests that both parties have a realistic understanding of the limitations auditing faces in transforming grant management, providing a foundation for a more constructive dialogue on improving audit practice.

RQ 3. The impact of identified irregularities in grant auditing on opinions on financial statements and compliance with legal regulations.

Financial auditing results in two types of opinions: an opinion on the financial statements and an opinion on compliance with legal regulations. We examined the views of state auditors (n=60) regarding the extent to which identified irregularities in grant auditing influence the formation of these opinions. The results are presented in Table 4.

Table 4. The impact of identified irregularities in grant auditing on opinions on financial statements and on compliance with the legal framework

Rating	Identified irregularities in the audit of grants have influenced opinions on financial statements	Identified irregularities in the audit of grants have influenced opinions on compliance with legal regulations
1 - Strongly disagree	16.67%	0.00%
2 - Disagree	26.67%	6.67%
3 - Neutral	30.00%	26.67%
4 - Agree	20.00%	33.33%

5 - Strongly agree	6.67%	33.33%
AVERAGE rating	2.73	3.93
STDEV	1.16	0.892

Source: authors' processing

The results reveal a pronounced asymmetry in the perceived impact of irregularities on the two types of audit opinions. State auditors assess that identified irregularities in grant auditing have a limited to moderate impact on the opinion of financial statements. As many as 43.34% of auditors disagree or strongly disagree that irregularities in grants materially affect the financial statements, whereas only 26.67% of respondents agree. The relatively high standard deviation (SD=1.16) indicates inconsistency in auditors' views. In contrast, auditors clearly perceive that irregularities in grant management significantly influence the formation of opinions on compliance with legal regulations. As many as 66.66% of auditors agree or strongly agree with this statement, while no respondent expressed strong disagreement. The lower standard deviation (SD=0.89) reflects a high level of consensus among auditors.

The substantial difference in impact assessment ($\Delta=1.20$ points) can be explained by the nature of irregularities most frequently identified in grant auditing:

- Accounting records of grants are generally properly maintained - allocated grants are appropriately recorded in the financial statements as expenses or transfers, which explains the limited impact on the opinion of financial statements.
- Grant planning, allocation, and monitoring procedures often exhibit significant deviations from legal requirements - unclear allocation criteria, non-transparent public calls, insufficient oversight of fund utilisation, and inadequate reporting represent systemic weaknesses that directly affect the assessment of compliance with the regulatory framework.

This finding highlights a dichotomy between formal correctness and substantive compliance: while the accounting aspect of grant management is generally in order, procedural and control aspects reveal serious deficiencies.

To validate auditors' perceptions with objective data, we analysed published audit reports for 2023 (n=8 audited entities). The results are presented in Table 5.

Table 5. Analysis of Audit Opinions of Federal Ministries for 2023 (n=8)

Indicator	Opinion on Financial Statements	Opinion on Compliance with Legal Regulations
Average Number of Grounds for Modified Opinion	0.625	1.75
Unqualified Opinion	12.5% (1 entity)	0% (0 entity)
Qualified Opinion	87.5% (7 entity)	100% (8 entity)
Adverse Opinion and Disclaimer of Opinion	0%	0%
Ratio of Grounds	1 : 2.8	

Source: authors' processing

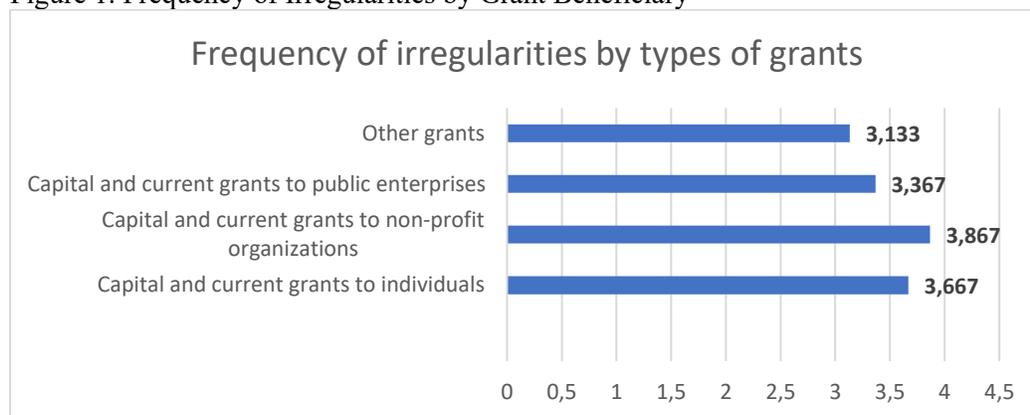
On average, only 0.625 grounds per entity related to grants resulted in a qualified opinion for 87.5% of the entities. This indicates that, although irregularities exist, they rarely reach a level of material significance that would warrant an adverse opinion or a disclaimer of opinion. On average, 1.75 grounds per entity led to all entities (100%) receiving a qualified opinion on compliance with legal regulations. This is a striking finding, highlighting systemic issues in regulatory compliance of grant management across the public sector in the FBiH. The difference in the number of grounds (1:2.8) numerically confirms that procedural issues

are almost three times more frequent than accounting issues, which corresponds with auditors' perceptions and indicates consistency in the findings.

RQ4. Frequency of Irregularities by Type of Grant.

To identify high-risk areas in the grant allocation system, we examined the perceptions of state auditors (n=60) regarding the frequency of irregularities across three categories of beneficiaries: public enterprises, non-profit organisations, and individuals (natural persons). The results are presented in Figure 1.

Figure 1. Frequency of Irregularities by Grant Beneficiary



Source: authors' processing

Grants awarded to non-profit organisations (both capital and current) rank highest on the risk scale, with an average score of 3.87. This suggests that the type of beneficiary is a far more significant risk factor than the type of grant (capital vs. current), indicating that the organisational culture and capacities of recipients play a decisive role in the occurrence of irregularities. The dominance of the non-governmental sector on the risk list does not imply that NPOs are inherently prone to irregularities or misuse of funds. Rather, it reflects structural characteristics of the sector, limited capacity, ambiguities in the regulatory framework for NPOs, and weaker control mechanisms compared to the public sector.

This finding calls for a differentiated approach in the grant allocation and control system, where different categories of beneficiaries are treated with varying levels of due diligence, monitoring, and reporting, proportional to the identified risks. The fact that the type of beneficiary outweighs the type of grant (capital/current) as a predictor of irregularities underscores that “who receives” is more important than “what it is received for,” which represents an important lesson for designing control systems in the public sector.

RQ 5. The Most Frequent Irregularities Identified by State Auditors During Grant Audits.

To identify the most critical weaknesses in the grant management system, we examined the views of state auditors (n=60) regarding the frequency of ten different types of irregularities that occur throughout the entire grant management cycle, from planning to reporting (Table 6).

Table 6. The Frequency of Various Types of Irregularities in Grant Audits

Rating	The frequency of various types of irregularities in grant audits				
	The goals and outcomes intended to be achieved by the grant are not clearly defined	When preparing budget requests, the institutions did not clearly justify the amounts of funds requested	Unclear procedures or failure to apply procedures for grant allocation	There is no oversight of the purposeful use of funds	The criteria for grant allocation are discriminatory (e.g., limited to certain municipalities, based on nationality, etc.).

1 - Strongly disagree	3.33%	0.00%	0.00%	0.00%	0.00%
2 - Disagree	3.33%	10.00%	0.00%	0.00%	6.67%
3 - Neutral	20.00%	36.67%	36.67%	23.33%	43.33%
4 - Agree	40.00%	33.33%	30.00%	33.33%	30.00%
5 - Strongly agree	33.33%	20.00%	33.33%	43.33%	20.00%
AVERAGE rating	3.967	3.633	3.967	4.200	3.633
STDEV	0.991	0.920	0.843	0.798	0.882

Source: authors' processing

The data analysis reveals three key phases in the grant management cycle where the most critical weaknesses are concentrated. Firstly, 83.3% of auditors (M=4.40) consider that the criteria for grant allocation are neither measurable nor clear. This irregularity represents a fundamental problem because:

- It prevents the objective selection of beneficiaries,
- It creates room for subjective decisions and the discretion of committees,
- It undermines the principles of equality and fairness in the distribution of public funds.

Additionally, 73.3% of auditors (M=3.97) confirm that the objectives and expected outcomes are not clearly defined, making it almost impossible to measure the success of a grant. This finding is empirically supported by the performance audit report “*Management of Grants from the FBiH Budget Based on Results*”, which notes that most objectives were formulated in general terms without further breakdown into specific and measurable indicators. In the implementation phase, three interrelated irregularities dominate:

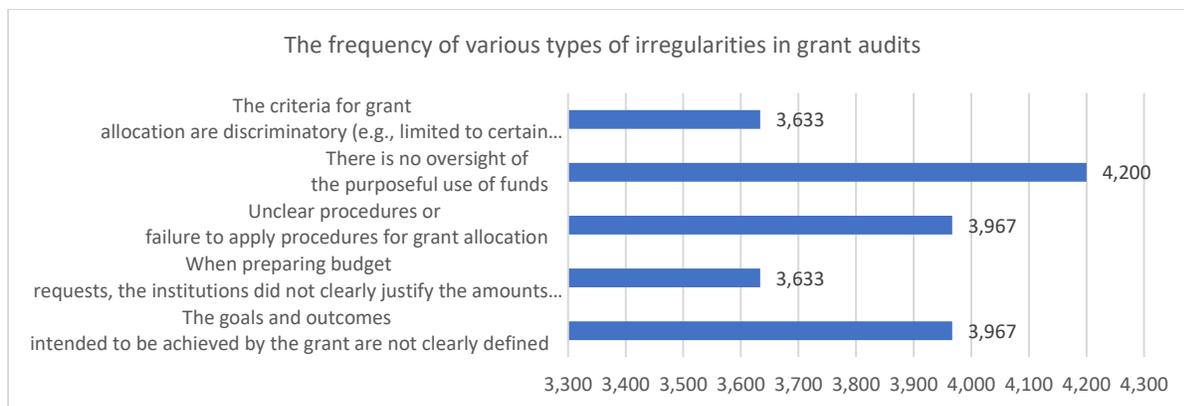
1. Discriminatory criteria (M=4.03, 83.3% agreement) - restrictions based on certain municipalities, national or political grounds,
2. Inconsistent selection of beneficiaries (M=4.03) - choices do not follow previously established criteria,
3. Unclear or inconsistently applied procedures (M=3.97).

According to the performance audit report, the application of existing criteria did not ensure that beneficiaries with the highest-quality projects were selected, compromising the fundamental purpose of grants. Scoring committees hold excessive discretionary power due to vague criteria, placing applicants in an unequal position. The most dramatic findings relate to the post-allocation phase:

1. Lack of analysis and evaluation (M=4.37) - 93.3% of auditors confirm that institutions do not perform substantive analyses of achieved results and the impact of grants on strategic objectives
2. Insufficient oversight (M=4.20) - 76.7% of auditors state that proper monitoring of the targeted use of funds is not conducted
3. Inadequate reporting (M=4.00) - beneficiaries submit brief descriptions without concrete indicators of outcomes

In order to validate the auditors' perceptions with objective data, we analysed the structure of recommendations from audit reports for the period 2010–2023. The results are presented in Figure 2.

Figure 2. The frequency of various types of irregularities in grant audits



Source: authors' processing

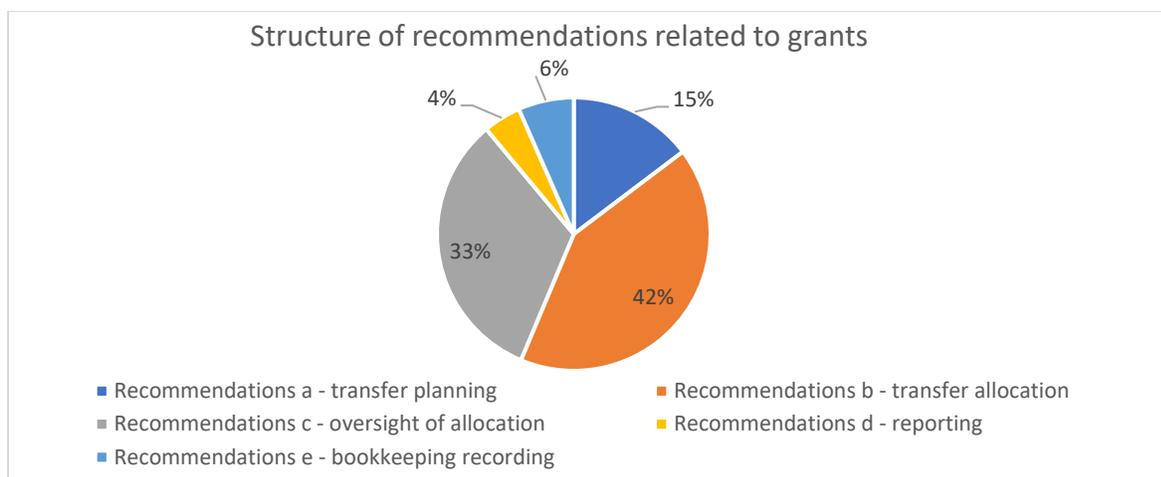
As much as 75% of all recommendations relate to only two phases of grant management, allocation and monitoring, confirming the consistency between the subjective perceptions of auditors and the objective audit findings. The results are particularly concerning when compared with INTOSAI standards (International Organization of Supreme Audit Institutions) and EU practices, where:

- Performance evaluation is a mandatory component of all publicly funded programmes,
- Measurable success indicators are defined during the programme design phase,
- Independent evaluations are regularly conducted by external evaluators,
- A formal feedback system is established between executive and legislative bodies.

The data presented in the figure 3. are actual findings derived from the reports of the Supreme Audit Institutions, illustrating the structure of recommendations related to grant management. The largest share of recommendations (42%) refers to transfer allocation, while 33% relate to oversight of allocation. These two categories together make up three-quarters of all identified weaknesses, emphasizing that the main problems occur in the distribution and monitoring phases of grant implementation. When compared with the survey results presented earlier, a clear consistency can be observed. Respondents in the survey also identified unclear allocation procedures and lack of oversight of the purposeful use of funds as the most frequent irregularities, both of which achieved the highest average ratings (3.97 and 4.20). This alignment between the subjective perceptions of respondents and the objective audit findings confirms the credibility of the results and indicates a persistent systemic issue in managing public grant funds. A smaller number of recommendations relate to transfer planning (15%), bookkeeping recording (6%), and reporting (4%), suggesting that while administrative procedures are less problematic, they still require improvement to ensure transparency and traceability throughout the grant cycle.

In summary, both the perceptions of respondents and the audit evidence point to the same conclusion, the greatest weaknesses in grant management in Bosnia and Herzegovina are linked to the allocation and oversight of funds, requiring stronger institutional controls, clearer procedures, and better accountability mechanisms.

Figure 3. Structure of recommendations identified in audit reports for the period 2010–2023



Source: authors' processing

The questionnaire asked auditors about the clarity of the objectives and outcomes intended to be achieved through grant allocation, whether analyses and evaluations of the achieved results of the set grant allocation objectives are conducted, and the types of irregularities occurring during the grant management cycle, from planning to reporting on allocated grants.

Table 7. Assessment of the frequency of individual types of irregularities

Rate the frequency of individual types of irregularities	AVERAGE	STDEV
Objectives and results to be achieved by the grant are not clearly defined	3.967	0.999
When preparing budget requests, institutions do not clearly justify the requested amounts	3.633	0.928
Unclear procedures or non-application of procedures for granting funds	3.967	0.850
Grant allocation criteria are not measurable and clear	4.400	0.770
No supervision over the earmarked use of funds	4.200	0.805
Grant allocation criteria are discriminatory (e.g., limited to certain municipalities, nationality, etc.)	4.033	0.850
Selection of beneficiaries is not carried out according to established criteria	4.033	0.850
Certain beneficiaries receive funds from multiple sources for the same purpose	3.800	0.805
Analyses and evaluations of achieved results and grant allocation objectives are not conducted	4.367	0.850
Reporting on the use of funds granted via grants is inadequate	4.000	0.910

Source: authors' processing

A large number of auditors indicated that audited entities did not define measurable objectives and expected results when planning grants. This finding is confirmed by the performance audit report "*Grant Management from the Budget of the Federation of Bosnia and Herzegovina Based on Results*", which notes that most objectives were formulated generally, without specifying measurable targets. Strategic objectives for each grant are rarely clearly identified, making it difficult to assess or measure expected outcomes.

As many as 83% of auditors believe that grant allocation criteria are neither measurable nor clear. Many also consider that beneficiary selection did not follow established criteria. According to the performance audit, applying existing criteria did not ensure that the highest-quality projects or programmes were selected, which is essential for achieving grant objectives. Criteria, whether general or specific, are often too vague, giving scoring committees discretionary power and placing applicants in unequal positions. Points awarded affect both beneficiary selection and allocated amounts, highlighting the importance of

measurable criteria. None of the grant agreements fully obliges beneficiaries to provide quality information on the impact of the grants. In some cases, agreements defining the proper use of funds were not concluded at all. No monitoring system ensures that reliable, relevant, and sufficient data on outcomes are provided. Beneficiaries usually submit brief project descriptions without concrete performance indicators. Direct oversight through site visits is limited due to scarce resources, and institutions generally lack dedicated units or staff specialised in monitoring. Oversight tasks are performed by committees whose members are regular employees, making monitoring an additional burden. Most auditors report that analyses and evaluations of achieved objectives and results are not conducted, which is confirmed by performance audit reports. Institutions do not carry out comprehensive assessments of the impact of funded projects, and therefore cannot evaluate how grants contribute to strategic goals. This gap reflects deficiencies from earlier stages, especially planning. Analyses focus on financial compliance rather than on outcomes or impact on strategic objectives. Institutions have not established feedback systems to report the effects of grants on strategic goals to relevant authorities such as ministries of finance or government bodies. Data provided often concern only financial indicators, without explanation of achieved results or impact. Most institutions submit tabular overviews of expenditures per project, without analysis or evaluation of results. Without reliable information on outcomes and impact, it is questionable whether executive and legislative bodies in the FBiH have a sound basis for decisions on corrective measures in grant allocation.

Findings from RQ5 indicate the need for a comprehensive reform that must address:

1. Short-term priorities (1-2 years): Development of standardised, measurable criteria for all types of grants; mandatory conclusion of agreements with clear obligations for reporting on results; and strengthening monitoring capacities – establishment of dedicated organisational units and staff training.
2. Medium-term priorities (2-4 years): Establishment of a performance evaluation system with clear methodologies; implementation of digital platforms for transparency and grant tracking; and development of a feedback loop to inform decision-makers.
3. Long-term priorities (4+ years): Cultural transformation towards results-based management (RBM); building analytical and evaluation capacities across all institutions; and harmonisation with EU public finance management standards.

RQ 6. Assessment of Audit Subjects Regarding the Justification, Clarity, and Feasibility of Recommendations.

The audit subjects provided almost identical, high ratings for the justification and clarity of the recommendations (both $M=4.03$). This is an encouraging finding, indicating that:

- Over 80% of audit subjects recognise that the recommendations are grounded in real issues identified by the auditors.
- Auditors successfully communicate their findings in a way that is understandable to practitioners.
- There is no rejection of recommendations as irrelevant or incomprehensible.
- There is a shared basis for dialogue between auditors and audit subjects.

The relatively low standard deviation ($SD \approx 0.90$) suggests a consensus among audit subjects from different institutions and cantons, meaning that the quality of communication by state auditors is consistently high. The most critical finding is the 0.66-point gap between the rating of clarity/justification and the feasibility of the recommendations. This difference represents an implementation gap, audit subjects understand what needs to be done and why, but face obstacles in practical execution. The higher standard deviation for feasibility (1.05 vs. ~ 0.90) indicates that contextual factors (institution size, budget, staffing capacity, political support) significantly influence the ability to implement the recommendations.

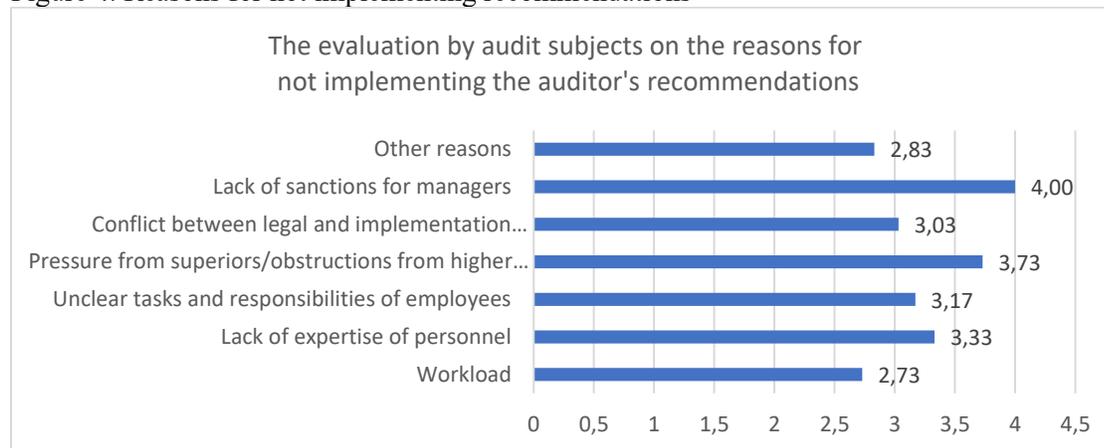
Overall, the audited subjects consider the recommendations of the state auditors justified and clear, but there is some room for improvement regarding their practical application and implementation.

RQ 7. Reasons for not acting on the auditor's recommendations by audit subjects.

The implementation of audit recommendations represents a key element in enhancing public administration and the efficient use of public funds. However, the research revealed that audit subjects often fail to implement the recommendations provided by state auditors. The analysis of reasons for non-implementation highlights a complex network of systemic, organizational, and capacity-related obstacles (Figure 4).

The most significant reason for not implementing audit recommendations is the lack of sanctions for managers, rated highest at 4.00. This constitutes a critical problem within the accountability system of the public sector. When managers are not confronted with concrete consequences for failing to implement recommendations, they have little motivation to prioritize their execution. This finding points to a fundamental deficiency in accountability mechanisms within public administration. Without effective sanctions, audit recommendations remain formal obligations without real weight, significantly undermining the role and effectiveness of state audit as a control mechanism. The second most important reason is pressure from superiors and obstructions from higher levels of government, rated at 3.73. This finding reveals a problematic dynamic within the hierarchical structures of public administration, where political or administrative leaders at higher levels can actively prevent or discourage the implementation of audit recommendations. Such a situation highlights the political dimension of the problem and resistance to transparency and accountability originating from the top of the organizational hierarchy. With a score of 3.03, conflicts between legal regulations and implementation procedures represent a significant legal and administrative challenge. This reason points to inconsistencies within the regulatory framework, where different laws may be contradictory, subordinate acts may conflict with primary legislation, and administrative procedures may complicate the enforcement of legally prescribed requirements. This regulatory fragmentation creates legal uncertainty and provides audit subjects with legitimate grounds for not implementing recommendations, even when their intentions are good.

Figure 4. Reasons for not implementing recommendations



Source: authors' processing

Interestingly, workload was rated as the least significant reason, with a score of 2.73. This finding is counterintuitive, as one might expect employees to cite excessive workload as the main reason for failing to implement recommendations. The low rating suggests that the issue lies less in a lack of time and more in the absence of will, prioritization, or systemic support. Other systemic factors (lack of sanctions, political pressures) have a far greater impact. The question is not “do we have time?” but rather “are we obliged to?” or “are we allowed to?”

Therefore, it can be concluded that increasing the implementation rate of audit recommendations requires:

- Establishing a clear system of sanctions for non-compliance with recommendations,
- Protecting the implementation process from political interference,

- Investing in staff training and capacity development,
- Harmonizing the regulatory framework,
- Defining clear protocols and responsibilities for recommendation implementation.

V. CONCLUSION

This study analyzed the significance, effects, and challenges of grant auditing in the public sector of the Federation of Bosnia and Herzegovina (FBiH) through a combination of quantitative and qualitative methods, integrating the perspectives of state auditors (n=60), audit subjects (n=100), and a systematic analysis of audit reports for the period 2010-2023. The findings reveal a complex picture in which grant auditing is recognized as important and potentially impactful, yet faces deeply entrenched systemic barriers that limit its real influence on the improvement of public financial management.

Findings from RQ1 unequivocally confirm that grant auditing occupies a central role in the public financial oversight system. With an average score of 4.40, state auditors demonstrate a high level of awareness regarding the critical importance of this area, justified by the fact that transfers account for 50–70% of the FBiH budget. Notably, this perception is not conditioned by years of work experience ($F=0.253$, $p=0.859$), indicating a deeply ingrained understanding of the importance of grant auditing within the professional culture of state auditors. This consensus provides a solid foundation for further strengthening of auditing capacities in this field. Analysis from RQ2 reveals that state auditing has a differentiated impact on three key dimensions of grant management. The highest impact is observed in the area of transparency ($M=3.67$ for auditors; $M=3.66$ for subjects), which is understandable given the public accessibility of audit reports and the media attention they attract. Moderate impact exists in the area of legal compliance ($M=3.58$ vs. 3.56), while the lowest impact is on management efficiency ($M=3.58$ vs. 3.23). Auditing is a necessary but not sufficient mechanism for transforming grant management. Transparency can be achieved through direct publication of reports, but operational efficiency requires systemic reforms that go beyond the scope of audit recommendations, including organizational changes, capacity investments, and political will for implementation. RQ3 reveals a fundamental distinction: irregularities in grant auditing have limited impact on the financial statement opinion ($M=2.73$, only 0.625 bases per subject) but significant impact on the compliance opinion ($M=3.93$, average 1.75 bases per subject-2.8 times higher). This finding exposes the core nature of the problem. Grants are generally recorded correctly from an accounting perspective, but their allocation, oversight, and evaluation show serious procedural deficiencies. The dramatic fact that 100% of audit subjects received a qualified opinion on legal compliance in the area of grants represents an alarm and points to a systemic, rather than individual, problem. RQ4 identifies the NPO sector as the highest-risk area in the grant system. With average scores of 3.87 (capital grants) and 3.78 (current grants), grants for non-profit organizations exceed the risk levels of grants for public enterprises by more than 1 point (≈ 2.9). This difference is not due to an inherent tendency of NPOs toward irregularities but reflects structural characteristics of the sector: weaker internal controls, limited financial reporting capacities, complex donor relations, and lower transparency compared to public enterprises. A differentiated approach is needed in the grant allocation and control system, where different categories of recipients are treated with levels of due diligence proportional to identified risks.

Perhaps the most significant finding emerges from RQ5, where a cascading effect of systemic weaknesses is identified throughout the entire grant lifecycle. The three most critical irregularities are:

1. Lack of performance evaluations ($M=4.37$) - 93.3% of auditors confirm that institutions do not conduct substantive analyses of outcomes.
2. Non-measurable criteria ($M=4.40$) - 83% of auditors report that criteria are not concrete.
3. Lack of oversight ($M=4.20$) - 76.7% of auditors note the absence of monitoring of targeted spending.

Validation through analysis of actual audit reports (2010–2023) confirms these findings: 75% of all recommendations relate to only two phases, allocation (42%) and oversight (33%), demonstrating consistency between subjective perceptions and objective evidence. Problems in early phases (unclear goals, non-measurable criteria) cascade into later phases, culminating in a complete absence of evaluation. The result is a vicious cycle in which the same issues persist for years due to the lack of learning and systemic improvement mechanisms. Institutions are trapped in a compliance paradigm (is the money recorded correctly?) instead of a results-based management paradigm (does the money achieve desired results?).

RQ6 reveals a paradox. Audit subjects rate the audit recommendations as justified (M=4.03) and clear (M=4.03) but significantly lower on feasibility (M=3.37). The implementation gap of 0.66 points (~13% on the scale) reveals a key distinction, the problem is not the quality of recommendations but the implementation environment. Audit subjects understand what needs to be done and agree on its necessity, but they do not act. This is not a technical problem but a governance problem indicating deeper dysfunctions in public administration.

RQ7 uncovers the root causes of the implementation gap and reveals a crisis-level accountability deficit in the F BiH public sector. The three most significant reasons for non-compliance with recommendations are:

1. Lack of sanctions for managers (M=4.00) - without consequences for non-implementation, managers lack motivation.
2. Pressure from superiors and obstructions from higher authorities (M=3.73) - political actors actively prevent recommendation implementation.
3. Lack of staff expertise (M=3.33) - even with willingness, capacity is insufficient.

Workload is rated lowest (M=2.73), indicating that the problem is not a lack of time but a lack of will, prioritization, or systemic support. The question is not “do we have time?” but “are we obliged to?” or “are we allowed to?” This finding shows that the implementation gap (RQ6) is a direct consequence of the accountability crisis (RQ7): subjects understand the recommendations, but systemic factors (political pressures, lack of sanctions) and capacity factors (insufficient expertise, unclear responsibilities) prevent implementation.

This study provides a comprehensive diagnostic of the state of grant auditing and public financial management in F BiH. The findings are, in some respects, encouraging: there is a high level of awareness of problems, the quality of audit recommendations is good, and audit subjects understand what needs to be done. At the same time, the findings are concerning. Awareness does not automatically lead to change, understanding does not result in implementation, and recommendations remain on paper.

For practitioners in public finance and auditing, the study offers:

1. Empirical identification of priority areas - NPO sector, evaluation phase, procedural compliance.
2. Concrete data on the prevalence of different irregularities - enabling risk-based audit planning.
3. Diagnostics of the implementation gap - understanding why recommendations remain unimplemented.
4. A basis for targeted reforms - focusing on accountability mechanisms, not just capacities.

Future research could use longitudinal designs to track changes over time, experimental approaches to test interventions for improving implementation, and comparative studies with other countries in the region.

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