

Grant audits

INDEPENDENT ACCOUNTANT'S REPORTS (IAR) 2022/23

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WHAT IS AN INDEPENDENT ACCOUNTANT'S REPORT (IAR)?



What is it for?

- Usually, a grant funding body likes to have some comfort that the grant that it is providing is funding the right expenditure in accordance with the terms of the grant. To gain confidence on this, it often requires an independent accountant to review the expenditure for which the grant is claimed and to issue an IAR setting out a view and findings.

Who arranges it?

- Generally, the grant funding body will leave it to the grant recipient to arrange for the appointment of an independent accountant to undertake the report, although it often makes stipulations, for example that the independent accountant must be a member of an appropriate professional body.



Who is the report to?

- As the independent accountant is selected and appointed by the grant recipient, the IAR is issued to the grant recipient, although it is usually recognised that the report will also be seen by the grant funding body.

When is it due?

This largely depends on the grant funding body and the level of expenditure. However, as a general rule, reports are usually required for the following:



- For the first quarter period for which the grant is claimed – this provides some assurance to the grant provider that the terms and conditions are being complied with and highlights possible errors at an early stage before grant claims are filed for subsequent quarters.
- At the end of the grant period – this covers the whole grant period and provides some assurance on the expenditure incurred in the context of the overall grant claim.
- An 'anniversary audit' – for longer grant periods or larger expenditure claims, an IAR may be required at the end of the first year of the grant period.

INFORMATION TYPICALLY NEEDED FOR THE GRANT AUDIT



Below is a breakdown of the items that may be requested for the audit testing to inform the accountant's report.

Labour

- Details of relevant employees and their associated costs included in the grant claim.
- Timesheet data for relevant employees showing the total hours/days worked on the project during the period and total hours worked for the period.
- Monthly pay data including gross salary, Employers' NIC and Employers' pension contributions for each employee.
- Evidence that the amounts included in the claim were actually expended before the end of the relevant quarter-end for the grant. This requires an audit trail from the payslip / payroll data through to the company's bank statements/BACS reports for the months included in the claim.



Overheads

- Confirmation that the overheads have been calculated in accordance with the methodology prescribed by the grant conditions; or
- Details behind the calculation of overheads from which further details may be requested.

Travel and subsistence, materials and subcontractor expenditure

- A breakdown of invoices and costs included in the claim for each category (including a description, date, invoice reference and total cost claimed for each item).
- Copies of a selected sample of the invoices/expense forms related to the costs and bank statements showing when the invoices/expenses were paid.



Capital usage

- A breakdown of which capital items have been used directly for the project included in the grant claim, including invoices confirming the initial cost of the capital item and utilisation percentages to confirm the cost attributable to the claim.

COMMON ERRORS



A number of common errors that we have encountered whilst preparing IARs, primarily in respect of Innovate UK grants, are listed below, identified under the relevant cost categories:

Labour

- Inadequate timesheet records to support the hours included in the claim.
- Inclusion of bonuses which are generally non-qualifying.
- Inclusion of costs of agency staff/consultants which are generally to be included under subcontractor costs as opposed to labour costs.
- Use of estimated hourly rates.
- Not including employer's NIC and pensions.

General

- Insufficient evidence of how 'cost' is derived for internally developed parts.
- Invoices not received and paid before the end of the grant period.

The above errors and pitfalls could be avoided by:

- keeping paperwork up to date;
- internal auditing of the company's systems;
- closely reviewing the grant terms; and
- ensuring that adequate controls are in place.

WHY WORK WITH HAZLEWOODS INNOVATION AND TECHNOLOGY TEAM?

- ICAEW registered statutory auditor - a requirement for most InnovateUK grants.
- Ranked UK Top 30 independent Business Advisers and Chartered Accountants.
- Long-established firm, founded in 1919.
- Specialist Innovation and Technology team who work with innovative businesses every day.
- IARs completed for companies in a range of technology sectors over the last five years, including:
 - robotics;
 - manufacturing and engineering;
 - healthtech;
 - aerospace and aviation.
- Experience of preparing IARs for a number of grant funding bodies including Innovate UK, Scottish Enterprise, European Commission and Department for Business, Energy & Industrial Strategy.
- Experience in providing 'bolt-on' claims to HMRC Research and Development Expenditure Credits for grant-funded R&D projects.

MEET THE TEAM



DAVID CLIFT

Partner

01242 680000

david.clift@hazlewoods.co.uk



JIMMY MITCHELL

Manager

01242 680000

jimmy.mitchell@hazlewoods.co.uk



LUCY SMITH

Manager

01242 680000

lucy.smith@hazlewoods.co.uk

For further information please contact our Innovation and Technology Partner David Clift on:

01242 680000 or
david.clift@hazlewoods.co.uk

www.hazlewoods.co.uk
[@HazlewoodsInnov](https://twitter.com/HazlewoodsInnov)

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