



What is a grant audit and why might you need one?

Funders of grants often require independent assurance that the recipients of funds have applied those funds in line with the terms of the offer. Very often, grant funding is directly or indirectly public or charitable funds so the assurance that the audit gives is critical in ensuring that funds are used for the purpose intended.

Usually, the grant recipient appoints the auditor to complete this review, but this is done in line with the terms set out in the offer letter which will have been agreed between the funder and the recipient. This usually means that the audit can be completed without the involvement of the funder and the recipient can manage the process directly. Generally, this includes arrangements around fees payable to the audit firm for their work, which can often be outside of the expenditure recoverable under the terms of the grant.

The Independent Accountants Report (IAR) will be issued upon completion of the audit, usually this is issued to the recipient with the expectation that it will be shared with the grant funder.

An accountant's report is then produced, stating whether expenditure meets the requirements of the grant. The report template is often stipulated by the grant provider.

How will I know if I need an audit?

The terms of the grant are set out in the offer letter which the funder will ask to be signed to acknowledge the recipient's agreement to the terms of the offer.

The offer letter will lay out both the eligible costs and reporting and audit requirements.

A key point is that an audit is not always just required at the end of the project being funded, this does sometimes catch out grant recipients. Often for bigger projects of those that spread over several

quarter funders often require ongoing monitoring.

Grants may be required at the following intervals most commonly:

- At the end of the project — they tend to be smaller and short-term projects.
- At the end of the first and last quarter of the project — projects with higher values which spread over several quarters often need to have an audit of the first and last claim. This is to give the funder comfort at quarter one that everything is operating as expected, then at the end of the last quarter a final claim will be completed on all other expenditure, so everything other than quarter one expenditure.
- An anniversary audit — when expenditure covers several years, and an annual audit expenditure is required.
- Quarterly certificates — for larger projects.

Funders set out deadlines for the reports to be submitted or tether them into claim submissions. It is important to be aware of the audit requirements as delays might mean that your funding could be delayed or paused.

Although we can usually respond quickly to grant audit requests from recipients, we do look to diarise in our audits with you so that we can be sure to work to these deadlines with you.

What might you need to provide to your auditor?

Funders often have differing requirements of the levels of assurance the audit need to provide; the requirements of the funder do differ from funder to funder with some having quite prescriptive requirements regarding both the nature and extent of our procedures — some grants do ask us to look at 100% of the costs within the claim.

However, in very general terms all grants audits do have much in common.

The offer letter will lay out eligible cost and we will request the breakdown of costs incurred in the grant claim period.

We will sample of these costs as appropriate to ensure that the costs in the claim are valid costs and that they are in accordance with the grant offer.

Key cost headings include:

- **Labour:** we will require details of employees who worked on the project, timesheet data to support the hours worked/cost claimed and payroll data to support the cost per hour applied to the grant claim.
- **Overheads:** we will require support for any overhead allocation calculations and may need to validate any assumptions behind those calculations. Where the overhead is an agreed amount, often a % of labour cost, we will reperform the calculations and agree the methodology back to the offer letter.

- **Invoiced expenditure:** this can include parts, subcontractor costs, materials etc. We would usually obtain a breakdown of all costs incurred during the claim period. We would select a sample of items and ensure that they are valid expenses, and that the classification appears to be reasonable
- **Capital usage:** Where capital usage has been included in a claim, we would obtain a summary of items used directly in the project and verify the cost of those items to source documentation e.g. purchase invoice. The grant offer would usually lay out the capital usage %'s permitted under the term of the grant offer.



Key grant audit findings

At BHP we work closely with our clients to ensure that the claims presented are in accordance with the offer and we will be on hand to answer any questions you may have as you work through the project. We firmly believe in getting it right the first time and our audits are a smooth process.

However, during our extensive experience in grant audits, we find that the key findings tend to be in the following areas:

- Inadequate timesheet data to support the hours worked.
- Errors in calculating the hourly cost of labour — this can include over costing by including bonuses and discretionary payments but also under costing where NI and pensions have been omitted.
- Including subcontract of agency labour within the labour category.
- The inclusion of recoverable VAT within the cost claims.
- Inadequate records of the costing behind any own parts used in the project e.g. where you use your own manufactured parts.
- Invoices included within the claim which have not been paid, it is a requirement of most grants that all expenditure be defrayed (actually paid out) before it can be reclaimed, so all invoices must be settled.



- The inclusion of set up and pre projects costs, costs incurred before the start date of the grant cannot usually be included in the claim even if they relate to the project.
- Over and underspend within classifications of eligible costs but an overall spend within the eligible costs total. You cannot compensate for an overspend in one category with an underspend in another. However, in practice we have seen that funders do try to be flexible as the understand that projects can change over time, so do talk to your funders to agree this in advance!
- Pay rates not been reviewed through the project meaning that salary increases over the project are not reclaimed by the recipient.
- Inclusion of capital assets as an eligible cost or the application of a capital usage % or inclusion of depreciation which has not been agreed in the offer.

How BHP can add value to the process

The specialist grants team at BHP have extensive experience of grant audits which include:

- Innovate UK (IUK)
- Arts Council England and Wales
- Horizon Europe (previously Horizon 2020)
- The Department for Education
- Regional Growth Funds

We work with our clients to help them understand what they can include in their claims and how to fairly maximise claims and the grant claim process. We have worked with clients in just about every sector and within the corporate, not for profit and education spheres.

BHP are a UK top 40 firm and can offer clients access to inhouse specialists across all areas of the practice. Many grant claims can also prove eligible for Research and Development Expenditure credits and our teams work with our grant recipient clients to ensure that they are taking advantage of this where spend is eligible.

If you have any questions,
please get in touch with
your usual BHP contact

bhp.co.uk
0333 123 7171

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Meet the team

Laura Masheder — Partner



Laura is a partner and heads of the not-for-profit team. She has been involved in grant audits for around 20 years and has experience in AgriTech, manufacturing, healthcare, aerospace, robotics and arts and culture.

Lesley Kendrew — Partner



Lesley is an audit partner acting for not-for-profit entities, academies and commercial organisations. She has been involved in grant audits for over 20 years, specifically those of academy trusts and the education sector.

Rachel Heath — Director



Rachel is an audit director working with not-for-profit and corporate organisations. She has been involved in grant work for over 10 years from various sectors including manufacturing.