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Everything you need to know about finances in R&D grant funding applications

(and how to comply with funder audits)

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Introduction

Let the company lead the grant, never let the grant lead the company.

This is a phrase we often share with our clients when we are scoping and planning innovation projects in preparation for R&D grant applications. It is easy to prioritise winning grant funding, but the real win is securing grant funding for an R&D project that is aligned with your business model with an approach that is straightforward to project manage.

We have collaborated on this article - which is aimed at businesses and research teams - to share our experience in developing and auditing R&D grant funding projects. We have interviewed leading grant and audit advisors about R&D grant applications. managing R&D grant projects and financial audits in R&D grants. We will also cover grant funder expectations, grant project reporting and independent audit reports in some detail. We hope this will help you design and deliver successful R&D grant projects for your business or university.

Cost-related questions in R&D grants

R&D grant applications across the UK and Europe generally require the same information on project finances at the point of submission. The costs that R&D grants cover are, in the main, also consistent across countries and funders.

The project budget you submit for assessment along with your application needs to allocate costs to staff wages, overheads (or indirect costs), materials & subscriptions, capital items, subcontractors, travel & subsistence, and other costs (anything else).

Alongside the project budget, you will have the opportunity to describe your project costs, how you derived them, and why they represent good value for money.

The project budget and the justification of its costs are critical elements of an R&D grant application and can make the difference between success and rejection.

Financial reporting in R&D grants

Financial viability and administrative readiness before a project

Even after a successful grant application, funders such as Innovate UK, UKRI and EU bodies issue a Grant Offer Letter, the formal contract setting out funding terms.

Before funds are released, organisations must complete additional checks – typically providing bank details, nominating a financial lead, and confirming any changes to project costs.

Innovate UK also requires a spend profile (budget forecast). Collaborative projects may also need a consortium agreement and intellectual property arrangements.

Post kick off and reporting

Once underway, most grants require regular financial and technical reports. In the UK these are often quarterly. They track spending against the approved budget and demonstrate alignment with project activities.

Evidence such as payslips, timesheets, invoices and receipts must be submitted, usually via an online portal. Strong record keeping is vital, as costs may be audited during or after the project.

Accurate reporting not only secures funding – particularly when released in arrears – but also builds credibility with funders, supporting future applications.

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What costs do R&D grants support?

01

Grant Writer:

Costs covered by R&D grant funders tend to be similar across the UK and Europe. They can include staff wages and overheads, capital costs, material costs, subcontractor costs, travel & subsistence, and legal advice (normally around intellectual property). When you develop your grant application, think about the timeframe of the project and its spend profile over its duration, split out by category. Consider front-loading costs if you are keen to get higher grant payments in the early stages of the live R&D project.

Grant Auditor:

It is important to acquaint yourselves with the funding terms and conditions for your project. Some funders will expect costs that have been defrayed during the reporting period, whilst others will accept these being incurred, but paid at a later date. Similarly, it is imperative that you refer to the financial cost guidelines for each provider at the outset. This avoids any ineligible costs being incurred and rejected. THP can direct you to the relevant guidance.

What reporting is required as part of an R&D Grant?

02

Grant Writer:

Typically, the lead applicant who has successfully secured R&D grant funding will have to report back to the funder every quarter. This varies from fund to fund. For example, Innovate UK requires quarterly reporting while Horizon Europe operates on a real-time reporting basis.

You will be asked to provide two key elements for most grant reports:

- **Technical report:**
  The progress that has been made in the period, including a general overview of project management and risks.
- **Financial claim:**
  What costs have been incurred, along with evidence of those costs.

Grant Auditor:

Grant audits verify that the costs claimed by the applicant are eligible and that the project is compliant with the regulations and/or scope. Without an audit, funders have no way of ensuring that projects fit with the declared strategic goals of the fund. The points at which independent grant audits are required will vary significantly between projects. For instance, IUK often requires an independent audit report before drawdown and at the end of a project.

In some ways, these audits can be considered as gatekeepers that unlock the funding for your successful grant application.

What financial evidence do funders expect for each cost category?

03

Grant Writer:

At the point of submitting an application for R&D grant funding, minimal evidence is required from the SME or research team applying for funding. The onus is on demonstrating value for money and justifying the project costs. It is advisable to keep R&D grant project costs as lean as possible. This is because competition for grant funding is high and value for money is a scoring criterion. Remember, when the project is awarded funding, you will have to evidence spend; so developing a project cost model that is as accurate as possible will help you in the long term.

Grant Auditor:

Once the R&D grant has been won and the live project is underway, R&D grant funders such as Innovate UK require an independent audit report before they will release project funds. This means every cost claimed must be backed by records that are complete, accurate, and compliant. THP outlines a structured process where clients send in their records which are then reviewed for completeness before the audit is executed.

Audit-ready evidence typically includes:

- Payroll reports and signed timesheets for labour costs.
- Proof of ID.
- Contracts and invoices for subcontractors.
- Depreciation schedules for capital equipment.
- Itemised receipts for travel and materials.
- Evidence of payment of the costs.

What common mistakes are made in grant financial reporting?

04

Grant Writer:

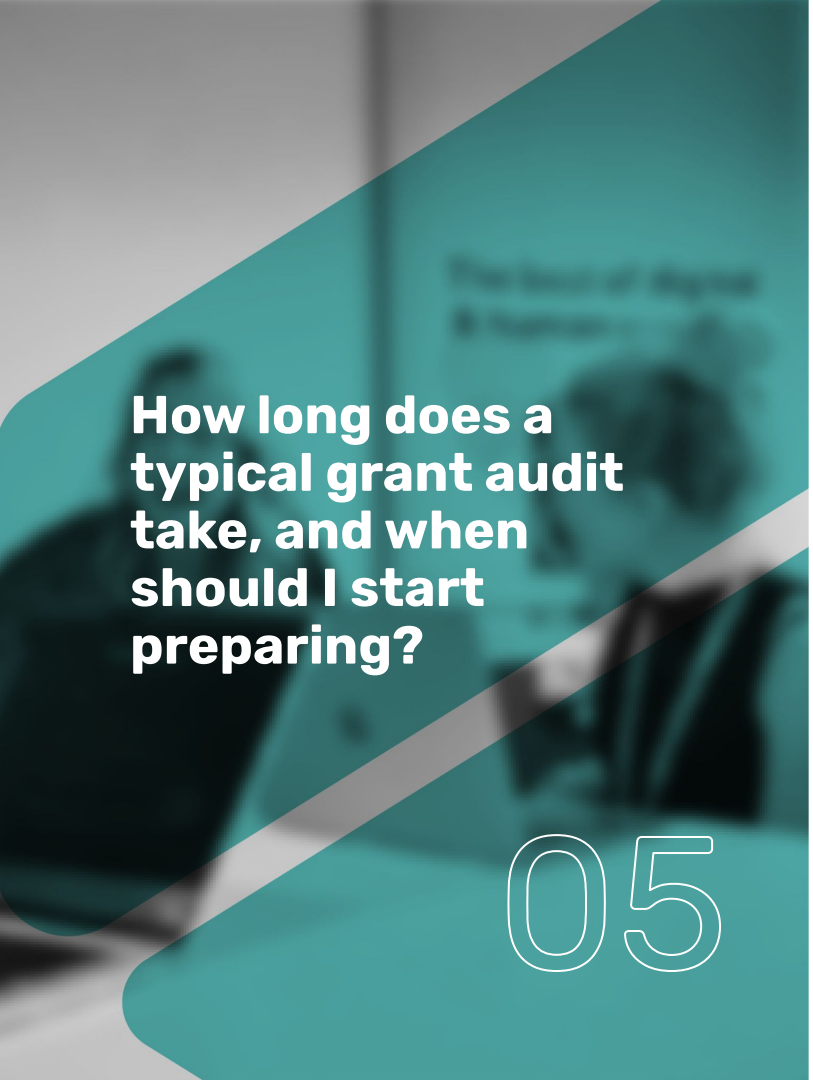
When you are designing your innovation project for R&D grant funding, it's worth considering a few common mistakes that (based on our experience) applicants make:

- **R&D activity:** For most R&D grant funders, the R&D activity needs to take place in the country where the grant funder is based. Including staff costs of EU-based developers for an Innovate UK R&D grant application will mean disqualification.
- **Balance of costs:** We have seen R&D grant applications rejected when subcontractors' costs make up a significant portion of the overall budget. Where possible, the bulk of the project costs should be for internal effort and not outsourced work.
- **High wages:** Certain sectors command high wages, but we regularly see R&D grant applications rejected when SMEs are seen to be 'greedy' in wage demands. Either keep wages to a benchmarked level, or make sure you justify them with clear and evidenced arguments.

Grant Auditor:

During a live R&D grant-funded project, frequent pitfalls in financial reporting that can cause delay, and even project suspension, include:

- Incomplete or late submission of records.
- Poorly evidenced staff costs or subcontractor invoices.
- Miscalculation of day rates for staff utilised on the project.
- Misunderstanding the interaction between grants and R&D tax credits.
- Lack of a clear audit trail for approvals or procurement.



How long does a typical grant audit take, and when should I start preparing?

05

Grant Writer:

As soon as your project is approved for funding, you should treat your records as if they may be audited. This includes setting up templates for timesheets, subcontractor agreements and cost tracking – all consistent with the application itself. When you reach the audit stage, you should have a full history of the costs of your projects. If you wait to start preparations until the funder asks for an audit, you can face a scramble to backfill evidence. Remember that funding drawdown is linked to a successful cost audit, so being prepared will get you paid quicker.

Grant Auditor:

The key here is planning, preparation and organisation. Much like completing a jigsaw puzzle, if all the pieces are sorted into the respective sections, it makes the grant audit process much more efficient and streamlined for all. At the outset, we determine our level of materiality on a bespoke basis for each assignment. This will dictate the minimum level of testing required. We will then methodically work through each cost category, ultimately looking to document adequate and accurate evidence for the costs you claim. Inevitably, due to the nuances each project might have, we will engage with you to seek further evidence, if required. We aim to deliver the Independent Accountants' Report (IAR) in a timely manner – which can be anything from a couple of days to a couple of weeks – subject to the size of the grant and reporting period covered.

About Venturenomix

With over **£100M** secured in non-dilutive finance, we bring the insight and expertise needed to successfully fund your innovation projects. By outsourcing R&D grant funding management to our experienced team, you benefit from more than 20 years of supporting businesses, universities, public bodies, and nonprofits in turning ambitious ideas into reality. We have secured funding from 30+ funders, including grants from Innovate UK, UKRI, Horizon Europe, Eureka and more. You can find some of the amazing clients we have worked with and success stories on **our website.**

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About THP

We are an established firm of chartered accountants regulated by ICAEW (Institute of Chartered Accountants in England and Wales). Founded in 1974 and incorporated in 2003, THP Limited is managed by a board of eight Directors from four office locations based in East London, Essex and Surrey. From the outset, audit has always been a core service and the history of our audit department, our ethos and details of our experienced audit team can be found **here**.

As grant audits require a more specialist knowledge and approach to general audits, we established a separate department for them. This is currently headed by Miles Girdlestone. Over the years we have carried out out scores of Grant Audits and we are very proud of our 100% success record in assisting successful applicants draw down their grant funds in the shortest possible timescale.

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