

Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	23 March 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Covid-19 Grant Payments
Report of:	Corporate Director Finance & Resources
Report Number:	RD.84/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of Covid-19 Grant Payments.

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

- 1.1. An audit of Covid-19 Grant Payments was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides partial assurances and includes 2 high-graded recommendations.

2. Risks

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

- 3.1 Not applicable

4. Conclusion and reasons for recommendations

- 4.1 The Committee is requested to
i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

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Appendices attached to report:

- **Internal Audit Report – Covid-19 Grant Payments – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

Audit of Covid-19 Grant Payments

Draft Report Issued: 11th January 2022
Director Draft Issued: 9th March 2022
Final Report Issued: 9th March 2022



Audit Report Distribution

Client Lead:	Head of Revenues and Benefits Services Revenues Team Leader
Chief Officer:	Corporate Director Finance and Resources Chief Executive
Others:	Head of Administration and Performance Management
Audit Committee:	The Audit Committee, which is due to be held on 23 rd March will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Covid 19 Grant Payments. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.
- 1.2. Since April 2020, the Department for Business, Energy and Industrial Strategy has financially supported local businesses adversely affected by trading conditions due to the COVID pandemic.
- 1.3. These payments have been administered at Carlisle City Council by the Revenues service for mandatory grants and Economic Development for discretionary. By September 2021, the Council had administered and paid nearly £56M of grants to local businesses.
- 1.4. Government guidance directs Local Authorities on the application and eligibility criteria for COVID grants. Local policies have been documented by Economic Development, clarifying administration requirements for discretionary payments.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Leads for this review are Head of Revenues and Benefits Services and Revenues Team Leader, and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Qualifying criteria for covid-19 grants has not been checked, documented and retained before payment, resulting in fraud/ erroneous payments.

- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal

control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Covid-19 Grant Payments provide **partial assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	2	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	-
3. Information - reliability and integrity of financial and operational information (N/A)	-	-
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	2	-

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 Findings Summary (good practice / areas for improvement):

Revenues and Benefits and Economic Development were asked to administer Covid grants for Carlisle City Council, in addition to their normal duties. These services were also hindered by information technology issues, whilst adjusting to working from home at short notice. In spite of these difficulties, payments were still made at the earliest opportunity to local businesses impacted by the pandemic. It is recommended that the findings of this audit are considered in this context.

There are two high level recommendations. Although pre-payment checks on claimants have been stated as undertaken, they have not all been fully documented, evidenced and retained in a systematic manner, significantly increasing the difficulty in verifying robustness of those checks. The documented fraud risk assessment requires further enhancement to identify and investigate high risk payments.

Due to the number and size of the payments made, and the difficult circumstances in which they were administered, there is a significant risk of ineligibility, fraud or error. Other Councils are known to have inadvertently made Covid grant payments to fraudulent applicants. For example, businesses not trading or supplying false bank details. The National Audit Office qualified the 2020/21 accounts of the Department for Business, Energy and Industrial Strategy due to a 'material level' of fraud estimated in Covid grant schemes.

An opportunity now exists to further enhance the work already undertaken, using the post-payment assurance process and fraud risk assessment requirements to review, identify and investigate payments that may have inadvertently been made due to ineligibility, fraud or error.

Comment from Corporate Director Finance and Resources:

I can only praise both the Revenues & Benefits and the Economic Development teams who had the unenviable task of providing financial grant support to the many business in the Carlisle area affected by COVID. As the audit report states, over £56million of grants were paid between April 2020 and September 2021 at a time when the Council itself was also affected by the pandemic in terms of homeworking, ICT equipment and staff shortages due to covid/self-isolation etc.

Immense pressure from both a local and national level was being placed upon the teams to administer the grants quickly; this, when viewed against almost daily amendments to government guidance and several new relief schemes being introduced during the period, did not help to shift the pressure being placed upon the teams.

During the period, fraudulent claimants were identified with no payments being released.

Whilst the hard evidence has not been fully documented and therefore not available to audit, I am informed that is contained within the system. I am assured that all grants awarded have been in line with the published government guidance. Where payments have been made in error these have been identified and steps taken to recover the debt.

Post assurance checks are now underway as part of the reconciliation process with BEIS with sample checks being undertaken; no issues have been found to date.

However, the audit review is a helpful reminder to all officers that a full audit trail of evidence-based decisions is crucial to ensure that proper governance exists in terms of internal controls and transparency so that any decisions can be justified when subject to scrutiny or challenge.

I wish to reiterate the fantastic work that was done by the teams during an unprecedented pandemic and under extreme pressure to get grants out to those who needed them. The systems operated were as robust as they could have been in the circumstances and taking those circumstances and the pressure outlined into account, the grading of this report as a partial assurance is somewhat disappointing and unfair on the teams administering the grants.

It should also be borne in mind that our teams received a great deal of criticism at the time for being 'slower out of the gates' in getting grants out than some other councils but that was because we insisted on ensuring that our systems were fit for purpose. That purposeful preparation paid dividends and we were soon one of the better performing councils.

Whilst the report states that the audit findings should be considered in the context of the pressures faced by the teams, I do not think that grading of the recommendations and assurance rating reflects this. It appears that the report has been written from the perspective of the ordinary course of events being the norm; however, it was not the norm and allowance must be made for the pandemic, homeworking and the pressure involved.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 Government grant guidance for each scheme details eligibility criteria that must be satisfied and discretionary measures to be used to verify eligibility criteria. Pre-payment checks have been undertaken although they have not been fully documented and retained in a systematic manner, significantly increasing difficulty in verifying the robustness of those checks. The starting point for grants administered by the Revenues Section is based on the information held within the Business Rates database and qualifying accounts were updated to hold a Circumstance Code for grant payments to be processed. Supporting evidence for the respective business, obtained to establish rate liability is held in the Document Management System, although there was increased difficulty in demonstrating the systematic checking, documentation and retention of wider eligibility criteria for each tranche of grant. Control spreadsheets have been documented to confirm discretionary grant eligibility criteria, although they still require further work to establish their robustness. Guidance advises that there should be an eligibility check and a recipient check on all payments, whether pre or post payment. An opportunity now exists to review guidance for each scheme and consider if evidence and eligibility criteria can be demonstrated as part of the post-payment assurance requirement.

Recommendation 1 – Use the post-payment assurance process to demonstrate that eligibility criteria has been met; and that error and fraud has been minimised

5.1.2 Government Covid Grant guidance details that the Government Grants Management function and Counter Fraud Function will support Local Authorities to carry out post-event assurance work in identifying high risk payments and estimate the likely incidence of fraud and error that may have occurred. This requires statistically significant sample testing of key residual risks to assess the level of fraud/ error that has arisen from the residual aspect of identified fraud risks. Post-event assurance is therefore dependent upon a detailed fraud risk assessment being undertaken for the scheme.

The documented post-event and fraud risk assessment requires further development to identify high risk payments and measure the likely incidence of fraud and error that may have occurred.

For example, consideration should be given to where:

- eligibility criteria for each scheme (such as, but not limited to business liquidation or trading indicators) may not have been checked, documented and retained
- application forms are not signed by all those jointly liable for NNDR
- payment has been made to single applicant where there is joint business ownership
- payment has been made to personal bank account
- bank details supplied are not evidenced by a statement

- bank details supplied do not match those held by the authority
- bank statements supplied indicate a business is not trading at the date of application
- there may be duplicated payments
- Ineligible payments may have been made to the same business under more than one scheme
- Payments made without an application form
- there may be business impersonation
- NNDR information held in Academy is not current.

This list is not meant to be exhaustive, and fraud risks for each scheme should be individually assessed on their own merit.

Recommendation 2 – Review the likely incidence of fraud and error that may have occurred for all schemes and investigate findings as part of the post-payment assurance assessment.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 The National Fraud Initiative (NFI) work programme was published in July 2020 and included mandated additional data as part of the counter fraud response to the government Covid-19 relief programme.

It was noted in the previous audit of Covid grants in 2020, data should have been prepared as part of the 2021 NFI data-matching exercise but was not due to workload pressures. The latest submission of grant recipient data to NFI was provided in February 2022.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Use the post-payment assurance process to demonstrate that eligibility criteria has been met; and that error and fraud has been minimised.	H	Payments made to ineligible or fraudulent claimants, or in error.	Eligibility and evidence for a sample of payments aligned to the review of likely incidence of fraud and error to be reviewed, with results documented. Independence and size of sample reviewed to be agreed with Corporate Director for Finance and Resources	Head of Revenues & Benefits Services	30 th Sept 2022
				Revenues Team Leader Head of Administration and Performance Management	30 th Sept 2022
Recommendation 2 – Review the likely incidence of fraud and error that may have occurred for all schemes and investigate findings as part of the post-payment assurance assessment.	H	Payments made to fraudulent claimants or made in error.	Review of likely incidence of fraud and error for all schemes to be conducted	Revenues Team Leader Head of Administration and Performance Management	30 th Sept 2022 30 th Sept 2022

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).