

Report to Audit Committee

**Agenda
Item:**

A.5

Meeting Date: 8 July 2021
 Portfolio: Finance, Governance and Resources
 Key Decision: Not applicable
 Within Policy and
 Budget Framework YES
 Public / Private Public

Title: Internal Audit Report – Business Grants Covid-19 (Fraud)
 Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
 Report Number: RD22/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2020/21 and considers the fraud review of Business Grants made by the Council because of the Covid-19 pandemic.

Recommendations:

The Committee is requested to

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

Tracking

Audit Committee:	8 July 2021
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 A fraud audit of Business Grants made by the Council because of the Covid-19 pandemic was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The audit (**Appendix A**) provides reasonable assurances and includes 3 medium-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

The Committee is asked to

- i) receive the final audit report as 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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Appendixes

**Internal Audit Report – Business
Grants Covid-19 (Fraud) –
Appendix A**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

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.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of Business Grants (Covid 19 Assurances)

Draft Report Issued: 06 May 2021
Revised Draft Issued: 21 May 2021
Director Draft Issued: 08 June 2021
Final Report Issued: 21 June 2021



Audit Report Distribution

Client Lead:	Revenues and Benefits Operations Manager
Chief Officer:	Corporate Director Finance & Resources Chief Executive
Others:	Revenues Team Leader Systems Control and Support Manager
Audit Committee:	The Audit Committee, which is due to be held on 8 th July 2021 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 Business Grants (Covid 19 Assurances). This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 1.2 In March 2020 a central government decision was made announcing the closure of all non-essential businesses as part of preventative measures to control the spread of Covid-19. To support businesses forced to close the government also announced two grant funds, the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund.
- 1.3 Local authorities were provided with funding by central government and were responsible for administering payments to businesses within their jurisdiction.
- 1.4 Following delivery of a grant application exercise Carlisle City Council paid a total of £26.6M to local businesses under the schemes.
- 1.5 Given the rapid nature of the process (necessary to provide timely support to businesses) it was recognised a higher level of risk exposure to fraud risks was inherent and authorities have been required by Central Government to deliver post-event assurances over how fraud risk has been managed. This audit is part of that assurance process.

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 Lead for this review was the Revenues and Benefits Operation Manager 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 scope areas:
 - The Council receives and processes payments for fraudulent/erroneous claims in relation to grants made available to support businesses during the Covid-19 pandemic.

- 2.4 There was one instance whereby audit work undertaken was impaired by the availability of information. This is included in the report and a recommendation has been made to ensure Internal Audit receive this information at a future date.

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 B** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within payment of business grants (Covid -19) provide **reasonable 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 C**. Audit recommendations arising from this audit review are summarised below:

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

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

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

The Council has put together a clear, efficient and logical process to administer payment of grants to businesses in line with government guidance. The hard work of the team is acknowledged and the efficient payment of £26M under challenging working conditions is a considerable achievement.

No confirmed instances of fraud were identified during the review. However, Internal Audit identified several grant payments made to businesses where evidence indicated premises were either closed (or potentially closed) or potentially being used for storage as at the time the scheme was announced. While these payments may not appear wholly appropriate, guidance issued by government (including subsequent clarifying FAQs) support the eligibility of these payments as all premises identified qualified for the Small Business Rate Relief. Revenues and Benefits have applied a consistent interpretation of the guidance issued. It is recommended these queries are considered as part of a suggested post-event risk assessment to obtain further assurance over their eligibility.

No assurances can be obtained that Revenues and Benefits have submitted regular assurance reports or performed a risk assessment of the grant payment process, meaning understanding of the exposure to fraud and error is limited.

Internal Audit has been unable to review grant payments for recently registered businesses due to the non-provision of information and no data has been provided to allow further fraud checks to have been raised by the National Fraud Initiative.

Comment from the Corporate Director Finance and Resources

A thorough and useful audit review which provides assurance on over £26.6million payments made to more than 2,000 eligible businesses by the Revenues & Benefits Team in very challenging circumstances which is a credit to the working of that Team

The findings from the audit review will be used to support the Post Payment Assurance Plan and the Fraud Risk Register which we are required to submit to the MHCLG. Along with other reconciliation reports and weekly returns made, it should be noted that a requested Post Payment Assurance (PPAS) Verification Process return was submitted to the MHCLG in early June providing evidence and assurances processes undertaken to support a sample of 15 grant payments made

5.0 Audit Findings & Recommendations

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

- 5.1.1** Local Government was provided with guidance on how to administer the scheme, including specifying the eligibility criteria to qualify for a grant payment. The Revenues & Benefits team received a copy of the guidance, which was used to inform the application and payment process. Subsequent FAQ guidance has also been issued to clarify issues and gaps identified within the guidance.
- 5.1.2** The guidance specifies that businesses should not be in liquidation or dissolved at 11 March 2021 and premises should not be used for personal use. Car parks were also exempt from payment.
- 5.1.3** The NNDR (National Non-Domestic Rates) software (Academy) was interrogated to identify those businesses that appeared to qualify for the scheme i.e. those that qualified for Small Business Rates Relief and those classified as Retail, Hospitality or Leisure that qualify for the Expanded Retail Discount.
- 5.1.4** Revenues and Benefits wrote to each business identified, asking them to complete, authorise and submit an application form confirming their eligibility for payment. The application includes a disclaimer that provision of false information is a criminal offence (fraud) and that the Council has the right to recover any grants paid that are subsequently found to be ineligible.
- 5.1.5** Any business that was not contacted that believed it was entitled to a grant was also given the opportunity to complete an application form if they contacted the Council.
- 5.1.6** Applications received were subject to verification checks by the Revenues and Benefits team. Internal guidance was prepared in line with government guidance to assist this process. Bank details were subject to verification checks using suitable software.
- 5.1.7** A verification exercise was also undertaken by the team, though this was limited to tracing bank account details and ensuring payments were accurate.
- 5.1.8** Payments for eligible claims were generated through financial services and a final reconciliation was performed to ensure all payments had been accurately made.
- 5.1.9** All application forms have been retained on file on the Revenues and Benefits electronic server. Forms have been placed in separate folders for those approved (2,269), rejected by the Council (52), declined by the business (39) and those currently under appeal (4).

- 5.1.10** Reasons for rejection have not always been stated, but where they have it is for reasons stated within the government guidance such as car parks, premises confirmed as empty, or with too high a rateable value to qualify. The current status of the four appeals is also undocumented. It is advised that records are updated to demonstrate reasons for rejection and list the outcome of appeals to improve management information retained in relation to these grant payments.
- 5.1.11** A folder for duplicate applications contains 769 records – while these have all been identified, this is indicative of the high level of risk exposure to fraud and error.
- 5.1.12** As part of post-event assurance checks central government requested monthly assurance reports and a risk-assessment. No evidence has been provided that these have been submitted. There is a risk that the Council is not aware of the level of risk exposure it has faced during payment of these grants.

Recommendation 1 – A post-event risk assessment should be undertaken (accounting for the findings from this audit review) to inform management's understanding of the fraud risk exposure faced by the Council.

5.2 Security – Safeguarding of Assets

- 5.2.1** The Council was due to provide data relating to grant payments to the National Fraud Initiative (a biennial data matching exercise to identify fraud and error within the public sector). NFI matches were published in March 2021. The Council has not submitted any data in relation to grant payments and therefore no match reports have been produced as part of the exercise.

Recommendation 2 – The Council should determine if grant data can be provided to the NFI retrospectively to enable production of relevant data matching reports.

- 5.2.2** At the start of the administration process Internal Audit was nominated as the key fraud contact and received fraud alerts from national intelligence sources such as the National Anti-Fraud Network. A small number of queries were raised with the Council, but investigations identified no instances of fraudulent payments being made.
- 5.2.3** Following communication with Eden District Council (July 2020) two instances were identified of fraudulent registrations claiming to have a business occupying premises the Council was aware of being empty (similar attempts had been identified by Eden).

5.2.4 The subsequent investigation concluded registrations were fraudulent. However, no further action was taken as the Council has not incurred any financial loss as a result of these fraudulent claims (as the attempted fraud had been identified prior to any payments being made).

5.2.5 Internal Audit requested management information from Academy to identify those grant payments more exposed to the risk of fraud and error. This included a request for accounts that had recently been registered with the Council, as there was a greater risk these were anticipatory registrations to inform a subsequent fraudulent application. This information has not been provided.

Recommendation 3 – Internal Audit should be provided with a record of new and recent accounts to enable further assurances that grant payments have been made to eligible businesses.

5.2.6 Following a review of information provided internal audit selected the following sample of applications (with a total sample value reviewed of £1.08M):

- 10 businesses with insufficient account information to determine the name and nature of the business.
- 10 businesses that recently changed their bank account details.
- 10 businesses with owners registered at an address a considerable distance from Carlisle
- 10 random selections
- 50 businesses (23 matches) where registered owners had received more than one payment.

5.2.7 Using a combination of online search engines, online maps, social media and Companies House registrations checks were made that applicants were from legitimate businesses that were operational on the qualifying date (11 March 2020). Checks were also made that applications had been appropriately completed and that there was evidence linking the registered owner to the business. Queries were raised with the Revenues and Benefits team who carried out further investigation where necessary.

5.2.8 A number of queries were raised relating to multiple payments being made to one business registered at the same address. These were all found to relate to businesses separated into two separate entities by the Valuation Office Agency following a significant legal ruling (Woolway Vs Mazaar). While such payments may not be fully the spirit of the intentions of the grant these are considered to represent legally separate entities and are therefore considered legitimate.

5.2.9 The following further queries were raised:

- Three payments of £10K were made to business premises that were verified as containing stock but were not open for business on 11 March 2020.
- Two payments of £10K relating to business that are now inactive where it is not clear the date they ceased trading (making it possible this was prior to 11 March 2020).
- Two payments of £10K relating to premises that may be used for personal reasons.

5.2.10 All these premises were legitimate business premises, registered with the Council prior to the 11th March 2020 qualifying date and were all confirmed as qualifying for Small Business Rate Relief on the date specified. The subsequent FAQ guidance issued by central Government stated that businesses qualifying for this relief were eligible and nothing in the guidance appeared to preclude these particular businesses from qualifying, though there is a degree of uncertainty over whether businesses were insolvent on the qualifying date.

5.2.11 Due to the necessity in enforcing a swift lock-down the government was obligated to roll out support rapidly and naturally some elements of the guidance were open to interpretation. Revenues and Benefits have applied their approach consistently and are confident that these payments are legitimate. However, the issues raised by Internal Audit should be incorporated into the post-event risk assessment to provide greater assurance (**See recommendation 1**).

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – A post-event risk assessment should be undertaken (accounting for the findings from this audit review) to inform management's understanding of the fraud risk exposure faced by the Council.	Medium	Failure to understand and mitigate the risk exposure faced as part of the payment of grants to businesses.	The findings from this review will be considered to understand the fraud risk exposure that may have occurred in administering the SBF and RHLGF processes.	Revenues & Benefits Operations Manager	31 st October 2021
Recommendation 2 – The Council should determine if grant data can be provided to the NFI retrospectively to enable production of relevant data matching reports	Medium	Failure to identify fraudulent or erroneous grant payments.	Clarification to be sought if data can be provided for matching reports to be obtained.	Revenues & Benefits Operations Manager	31 st July 2021
Recommendation 3 – Internal Audit should be provided with a record of new and recent accounts to enable further assurances that grant payments have been made to eligible businesses	Medium	Failure to identify fraudulent or erroneous grant payments.	Data to be provided for further assurance to be determined.	Systems Control and Support Manager	31 st August 2021

Appendix B - 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 C

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).