



**INTERNAL AUDIT FINAL REPORT**

**CHIEF EXECUTIVE'S**

**INTERNAL AUDIT REVIEW OF THE COVID-19 CLAIM PROCESS  
FOR THE SMALL BUSINESS GRANT FUND SCHEME**

**Issued to:** Peter Turner, Director of Finance  
Claudine Douglas-Brown, Assistant Director, Exchequer Services

**Prepared by:** Principal Auditors

**Reviewed by:** Head of Audit and Assurance

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## **INTRODUCTION AND SCOPE**

1. In response to COVID-19, the government made financial support available for small businesses and businesses in the retail, hospitality and leisure sectors. This was delivered through the Small Business Grant Fund and the Retail, Leisure and Hospitality Grant Fund with payments being made to businesses via the Council. Bromley Council received £52.5m to distribute. Funding of £2.4m from that was diverted to support the payment of Discretionary Business Grants in a scheme introduced by the government. This report sets out our review of the controls put in place by Finance Directorate and the Council's Exchequer contractor for the Small Business Grant Fund process.
2. Under the Small Business Grant Fund all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system were eligible for a payment of £10,000 dependent on the rateable value of their property and in line with other eligibility criteria set by the government. Businesses had to be active on 11 March 2020.
3. Our Assurance Rating in paragraph 7 below relates to the effectiveness of those controls operated by the Council's Exchequer contractor and Finance Directorate. Advice from the Internal Audit Standards Advisory Board on conformance with the Public Sector Internal Audit Standards during the Coronavirus pandemic states that internal Audit can protect organisational value by:
  - Helping Management find new ways of working
  - Providing real-time advice and insight into the development of new systems and controls (for example when the organisation has to implement a new and urgent government policy)
  - Providing real-time assurance to management and the Audit Sub-Committee on actions and decisions being made.
4. On announcement of the financial support schemes, we were consulted by and worked closely with the Finance Directorate and the Council's Exchequer contractor advising on the risks and controls to mitigate those risks. We provided advice on interpretation of the eligibility criteria and setting up the application process including appropriate supporting evidence which should be requested for verification. We also provided support in real time on issues that were arising. We also linked with government agencies such as the Government Counter Fraud Function and the Cabinet Office to utilise anti-fraud tools and data sharing to undertake pre-payment checks and validate applicants as these tools and facilities became available. We also carried out significant post-payment assurance work, as would be expected in respect of a new system, introduced at pace and as expected by central government given the significant public expenditure. We knew the risk of irregular payments was high and that we would not be able to stop all fraud and irregular payments. By scrutinising the payments that we made and who they went to, we could however help to reduce the loss overall to a minimum. Our ongoing work through the National Fraud initiative where we share and match data with other public sector bodies will address any residual risk further.

5. A total of 2007 payments were made for Small Business Grants, totalling £20,070,000.
6. We would like to thank everyone contacted during this review for their help and co-operation.

### **AUDIT OPINION**

7. Our overall audit opinion is shown below. There are no recommendations arising from our review. Our opinion definitions and assurance level ratings are set out in Appendix B.

<b>AUDIT OPINION</b>
<b>Substantial Assurance</b>

### **SUMMARY OF PRE-PAYMENT CONTROLS AND ASSURANCE WORK**

8. The Council's Exchequer contractor produced a Risk & Controls Assessment for the grants' administration process. We reviewed this to provide additional assurance to both the Council and the Council's Exchequer contractor. An on-line application process was set up by the Council's Exchequer contractor to enable businesses to make a grant application. A fraud clause, clawback agreement and privacy statement were recommended to be included in the on-line application as suggested by the Government's Counter Fraud Measures Toolkit. The application form also included a clause highlighting each business' obligation to comply with State Aid funding limits. This was also in line with Government guidance. We reviewed and advised on the information which should be requested on the application form and the supporting evidence to verify the legitimacy of the applicant.
9. When the applications went live on the London Borough of Bromley's website, the council was inundated with applications. One member of the Internal Audit team was seconded to work with the business rates team to process the incoming applications in a timely manner.
10. The grant funding guidance specified that the grant recipient was the person who according to the business rate billing authority's records was the ratepayer in respect of the hereditament on 11<sup>th</sup> of March 2020. Therefore, the business rate account number was made a mandatory field on the grant application. On receipt of an application, the Council's Exchequer contractor confirmed the business details on the application to those recorded on the Council's business rates database. The payment details were verified to the bank statement which was required to be submitted with the application. They also used 'open source' data checks

to verify the details of the applicant prior to payment. Internal Audit assisted with undertaking bank detail checks on the NFI system where requested by management. These pre-payment checks enabled the Council to mitigate against the risk of a high number of fraudulent or erroneous payments of £10,000 being made.

11. If any further information was required from the applicant to verify the authenticity of their business, it was requested by the Council's Exchequer contractor prior to payment being approved. In complex or disputed cases, advice was sought by the Council's Exchequer contractor from Exchequer Services management, Internal Audit and, occasionally, from counter fraud colleagues at the Royal Borough of Greenwich. Once the required pre-payment checks on applications had been completed, the payment was included in the next payment run and made via BACS to the bank account recorded on the application. No cheque payments were made.
12. Intelligence Alerts received from the National Anti-Fraud Network (NAFN) which provided information about emerging fraud, risks and trends were immediately shared with management. One such alert from NAFN informed us that they were aware of at least 346 attempts of corporate impersonation fraud with a total value of almost £5.7m. They provided further details of national companies targeted and email addresses used. This information was shared to enable the Council's Exchequer contractor to check and confirm that no fraudulent or suspicious payments had been made to any of those identified. Furthermore, all properties within the Borough which (according to the Council's business rates database records) are occupied by any of the NAFN highlighted companies were put on an 'exclusion list' to help ensure that potentially fraudulent claims were not subsequently processed and paid. Further intelligence reports were received frequently, requiring further checks to be carried out.
13. To ensure all eligible business benefitted from the grant, management wanted to write to the businesses on the business rates database who may be eligible for the grant but had not yet applied. Before these businesses were approached, the Greenwich Fraud Team undertook 'open source' data checks on such businesses. Their checks identified some businesses that were no longer trading or where further checks will be needed if they did subsequently apply.

#### **SUMMARY OF POST-PAYMENT CONTROLS AND ASSURANCE WORK**

14. We carried out post-payment checks on a sample of 1410 payments using the Government's Counter Fraud Function tool 'Spotlight' for businesses which were registered at Companies House. We used open source internet information for any businesses in our sample which were not registered at Companies House or were sole traders. The Spotlight checks enabled us to identify if any companies were dissolved or in liquidation on 11 March 2020, had overdue accounts or a history of insolvency and/or a different registered company number and address from that stated in their application.

## **INTERNAL AUDIT REVIEW OF THE COVID-19 CLAIM PROCESS FOR THE SMALL BUSINESS GRANT FUND SCHEME**

**REDACTED**

15. When the results were received, we analysed them and liaised with Finance Directorate colleagues and the Council's Exchequer contractor to establish any cases of fraud, error or non-compliance. Any cases identified which might be classified as fraudulent or attempted fraud were then referred to the Greenwich Fraud Team for further analysis and possible investigation.
16. We used the National Fraud Initiative bank details validation tool to undertake pre-payment checks on the bank account details for 16 specific grant applications at the request of the Assistant Director, Exchequer Services. The checks were mainly undertaken to verify that the grant was being paid to the occupier business where an application had been submitted by the landlord on the business's behalf.
17. We reconciled a random sample of BACS payments made to businesses to the payment files prepared by the Council's Exchequer contractor and Finance staff. There were no transcription or arithmetical errors and furthermore our checks have given reasonable assurance that there has been no suspicious or fraudulent activity by the Council's Exchequer contractor or Finance officers who were involved in the payment process.

### **MONTHLY REPORTING OF PAYMENT INFORMATION TO THE DEPARTMENT FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY (BEIS)**

18. The Department for Business, Energy & Industrial Strategy (BEIS) has required the Council to report to them each month the number and value of business grant payments made for the Small Business Grant Scheme and the number and value of cases of fraud, error and non-compliance identified by the Council.
19. We have carried out quality assurance checks for the payment information provided by the Council's Exchequer contractor before it is sent to the BEIS.

### **FRAUD RISK ASSESSMENT AND POST PAYMENT ASSURANCE PLAN**

20. BEIS also required all Councils to complete a Fraud Risk Assessment for each of the schemes and complete a Post Payment Assurance Plan. We completed this in conjunction with the Risk and Compliance Manager at the Council's Exchequer contractor. The purpose of the Plan was for us to set out the objectives, governance arrangements and what additional testing would be carried out to identify any further instances of fraud and non-compliance in the business grant payment process.
21. The additional testing to be carried out by the Council's Exchequer contractor across the schemes was discussed and agreed with us in advance. Subsequently, it was quality assured by us and found to be of a high standard. We can therefore place reliance on

this additional testing in respect of the Small Business Grant Fund Scheme. Separately, we also carried out several different tests and found no further instances of payments which required investigation.

### **NATIONAL FRAUD INITIATIVE**

22. We are taking part in the National Fraud Initiative (NFI) which will undertake data matching based on established NFI methodologies to identify potential fraud and release results on 31 March 2021 for the Council to check in relation to:

- multiple grants paid to businesses within or between Local Authorities;
- duplication between grant schemes where relevant; and
- payments made to business or individuals flagged in proven fraud 'watchlist' data, where available.

### **CONCLUSION**

23. The post payment assurance work and risk assessment which we have carried out, together with the very low number of cases of fraud, error and non-compliance identified, has enabled us to place reliance on the effectiveness of the controls and processes put in place by Finance Directorate and the Council's Exchequer contractor for Small Business Grant claims. The scheme has now closed. The final figures for payments made, fraud, error and non-compliance are summarised below and in the chart at Appendix A:

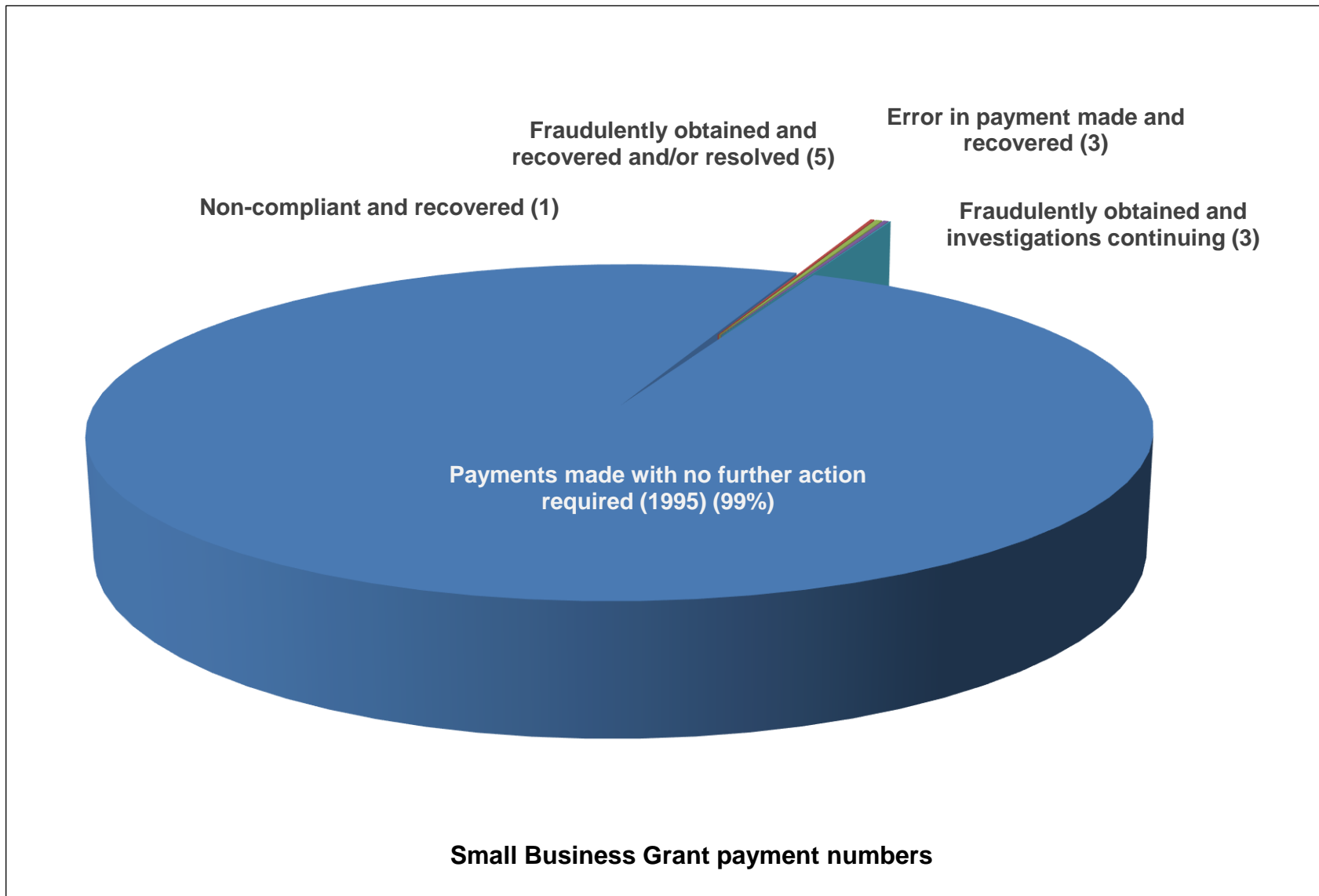
#### Small Business Grant Scheme

There were 2007 grant payments made totalling £20,070,000. There were three payments totalling £30,000 where the payment was made in error and has been returned.

There was one payment totalling £10,000 where the grant paid was identified as non-compliant in line with the scheme guidance. This is in the process of being recovered.

Five grants totalling £50,000 appeared to be fraudulent and have been recovered and/or resolved and there are three cases of payments made totalling £30,000 where investigations are continuing.

**SMALL BUSINESS GRANT FUND SCHEME PAYMENTS**



OPINION DEFINITIONS

Assurance level

Assurance Level	Definition
<b>Substantial Assurance</b>	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
<b>Reasonable Assurance</b>	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
<b>Limited Assurance</b>	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
<b>No Assurance</b>	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
<b>Priority 1</b>	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
<b>Priority 2</b>	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
<b>Priority 3</b>	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.