



INTERNAL AUDIT FINAL REPORT  
CHIEF EXECUTIVE'S

INTERNAL AUDIT REVIEW OF THE COVID-19 CLAIM PROCESS  
FOR THE LOCAL DISCRETIONARY GRANT SCHEME

**Issued to:** Peter Turner, Director of Finance  
Sara Bowrey, Director of Housing, Planning, Property and Regeneration  
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**Reviewed by:** Head of Audit and Assurance

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## **INTRODUCTION AND SCOPE**

1. In response to Covid-19, the Government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors, delivered through the Small Business Grant Fund and the Retail, Leisure and Hospitality Grant Fund. An additional fund aimed at small businesses who were not eligible for the Small Business Grant Fund, the Retail, Leisure and Hospitality Fund or other forms of support, called the Local Authority Discretionary Grants Fund, was launched in May 2020.
2. This was delivered through payments made to businesses via the Council. Bromley Council received £52.5m to distribute of which funding of £2.4m were payments of Local Discretionary Grant made to businesses. This report sets out our review of the controls put in place by Housing, Planning & Regeneration Directorate, Finance Directorate, and the Council's Exchequer Contractor for the Local Authority Discretionary Grant Fund process.
3. In line with the eligibility criteria set by the government, businesses that were eligible for cash grants from any central government COVID-19 related scheme were ineligible for funding from the Discretionary Grants Fund. However, businesses that were eligible for the Self-Employment Income Support Scheme or Coronavirus Job Retention Scheme could receive grants under the Local Authority Discretionary Grants Fund. Additionally, only businesses that were trading on 11 March 2020 were eligible for this scheme. Businesses that were in administration, were insolvent or where a striking-off notice had been made were not eligible for funding under this scheme.
4. The Local Discretionary Grant fund was aimed primarily at businesses in shared spaces and with significant fixed property costs, however Local Authorities were given the discretion to prioritise businesses depending on their local economy and to determine which businesses fit their locally-established criteria.
5. Our Assurance Rating in paragraph 9 below relates to the effectiveness of the controls operated by the Council's Exchequer Contractor and Housing, Planning & Regeneration 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 had 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.

6. On announcement of the financial support schemes, we were consulted by and worked closely with the Housing, Planning & Regeneration 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.
7. A total of 178 payments were made for Local Discretionary grants, totalling £2,275,000.
8. We would like to thank everyone contacted during this review for their help and co-operation.

**AUDIT OPINION**

9. 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**

10. 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.

11. To make the process as fair as possible, it was recommended that the fund was launched in advance of it being open to applications to provide businesses with advice and support on making an application. The scheme was launched on 3<sup>rd</sup> June 2020 and the Local Economy Business Grants Guidance for Applicants was made available on the Council's website. The scheme was then opened for applications on the website from 10<sup>th</sup> June 2020 to 23<sup>rd</sup> June 2020.
12. The grant funding guidance specified the following mandatory requirements of the national criteria that businesses demonstrated that they were:
  - Not eligible for or in receipt of cash grants under other government COVID-19 support schemes (excluding the Coronavirus Job Retention Scheme)
  - Trading on 11<sup>th</sup> March
  - Not in administration, insolvent or issued with a striking-off notice
  - Not in breach of State Aid rules when accepting the funding
13. The guidance also stated that funding should be primarily and predominately for businesses that are:
  - Small or micro enterprises as defined by the Companies Act 2006
  - Have ongoing and fixed property related costs
  - Can demonstrate that they have suffered a significant fall in income due to COVID-19
  - Occupy a property or part of a property with a rateable value, annual rent, or annual mortgage payment of below £51k.
14. To enable efficient processing of grant applications and to prioritise the allocation of funds within the national criteria set by the government, the following parameters were put in place, requiring businesses to demonstrate:
  - That their monthly turnover since 11<sup>th</sup> March 2020 had reduced by more than 50% on the previous year. This was to ensure that funding was directed to those businesses that have suffered the most significant impact on their income due to coronavirus.
  - That they did not have cash reserves of over a set amount depending on their turnover bracket. This was to ensure that funding was given to those businesses that could not otherwise survive the impact of coronavirus.
    - Not more than £200k for businesses with a turnover of between £1m and £2m

- Not more than £100k for businesses with a turnover of between £500k and £999k
  - Not more than £50k for businesses with a turnover of less than £500k
  - That businesses were registered, that is their main business was in the London Borough of Bromley, and trade in the London Borough of Bromley
  - That they were a private enterprise trading as self-employed, a partnership or a Limited Company.
  - Only one grant was payable per business, the amount of grant was based on the overall financial position/size of the business.
15. To further prioritise businesses, the following local eligibility criteria was also agreed to ensure that grants were distributed to best support the local economy. It was proposed that applicants must demonstrate that their business met at least two out of the five of the following local eligibility criteria:
- A minimum of 25% of their staff live in the borough. This was to recognise the business's wider contribution to the local economy as an employer of local people.
  - Their turnover was under £2m. This is in recognition that the local economy is particularly reliant on micro businesses (which make up 93% of the 15,475 businesses in the borough). Note that government guidance would allow businesses with a turnover of up to £5m to apply.
  - They have an apprenticeship and/or internship scheme which was currently active. This recognises their commitment to the long-term success of the local economy through the provision of opportunities for developing young people's skills.
  - They were a charity whose charitable objectives, as registered with the Charity Commission, directly benefited borough residents.
  - Were located (main registered office) in one the borough's Renewal Areas or a Strategic Outer London Development Centre, as defined by the borough's Local Plan as priority areas of economic development.
16. Businesses were informed that the application form must be completed by a person with the authority to make declarations on behalf of the business, such as the business owner, company director or partner. They were required to provide proof of identification which was checked by the Council's Exchequer Contractor on receipt of the application. The application process also required businesses to submit information confirming that they met the eligibility criteria and evidence relevant to their eligibility. The applications were processed as soon as they were received and in the order in which they were submitted. The applications were verified, and the documentary evidence provided was reviewed. The processing team 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 being made.

17. 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 and reviewed. Applications from all eligible businesses were processed before determining the level of grant to be awarded. The Government allowed for grants of £25k, £10k and any amount under £10k to be administered under this scheme; the Council decided to award grants of £10k or £25k depending on the annual turnover of the business.
18. Successful applicants were contacted to confirm the amount of grant that they would receive and were required to provide further information in relation to State Aid before a grant was paid. All payments were made by BACS.
19. Unsuccessful applicants were sent an email explaining the reasons for rejection. An appeals procedure was published on the Council's website. Appeals that were received were processed as per the procedure.
20. In complex or disputed cases, advice was sought by the Council's Exchequer Contractor and Assistant Director, Special Projects from Internal Audit and, occasionally, from the counter fraud colleagues at the Greenwich Fraud Team.
21. 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.

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

22. We carried out post-payment checks on a sample of 141 payments using the Government's Counter Fraud Function tool 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. These 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.
23. When the results were received, we analysed them and liaised with Housing, Planning & Regeneration 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.

24. We used the National Fraud Initiative bank details validation tool to undertake pre-payment checks on the bank account details for 193 specific grant applications at the request of the Assistant Director, Special Projects. The checks were mainly undertaken to verify that the bank account details provided for grant payment belonged to the relevant business.
25. 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)**

26. 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.
27. We have carried out quality assurance checks for the payment information provided by the Council's Exchequer Contractor before sending it to BEIS.

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

28. 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.
29. 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 Local Discretionary Grant Fund Scheme. Separately, we also carried out several different tests and found no further instances of payments which required investigation.

**NATIONAL FRAUD INITIATIVE**

30. We took part in the National Fraud Initiative (NFI) which undertook data matching based on established NFI methodologies to identify potential fraud and released results on 14<sup>th</sup> May 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**

31. The post payment assurance work and risk assessment which we have carried out has enabled us to place reliance on the effectiveness of the controls and processes put in place by the Housing, Planning & Regeneration Directorate and the Council's Exchequer Contractor for the Local Discretionary Grant claims. No cases of potential fraud relating to the Local Discretionary grant scheme were identified. The scheme has now closed.

**OPINION DEFINITIONS**  
Assurance level

**APPENDIX A**

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.