

Report to: Audit and Standards Committee
Date: 4 July 2022
Title: Post Assurance Review of the First and Second Phase of Covid Business Grants
Report of: Chief Internal Auditor
Ward(s): All
Purpose of report: To update the Committee on the progress of the work being carried out.
Officer recommendation(s): To note the report.
Reasons for recommendations: The Audit and Standards Committee provides independent assurance of the adequacy of the risk management framework and the associated control environment
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1.0 INTRODUCTION

- 1.1 The purpose of this report is to provide an update of the work undertaken to verify the coronavirus business support payments administered by Lewes District Council and to establish whether any payments were made in error or were fraudulent. This report is a revised version of the 'Post Assurance Review of the First Round of Covid Grants' reported to committee on 27th September 2021 to incorporate the Second Round of Covid Grants. The verification work takes into account the individual policy for each grant to establish eligibility alongside the Post Event Assurance Plan required by the Department for Business, Energy and Industrial Strategy:
- to assess the level of fraud and error in Covid-19 grant schemes, loans etc
 - to identify instances of fraud and/or error and take action to recover money
 - to make recommendations to improve systems and processes
- 1.2 The report covers different approaches taken to verify the eligibility of payments and highlight cases where additional investigation is required. The post assurance work has evolved as more data analysis tools become available (e.g. Ascendant fraud and error reports/National Fraud Initiative) and reflects the evolving nature of each of the nine different grant schemes released to date.
- 1.3 This report covers the first two waves of Business Support Grants made available to eligible businesses:
- Phase One April – September 2020
- Small Business Grant Fund

- Retail, Hospitality and Leisure Grant Fund

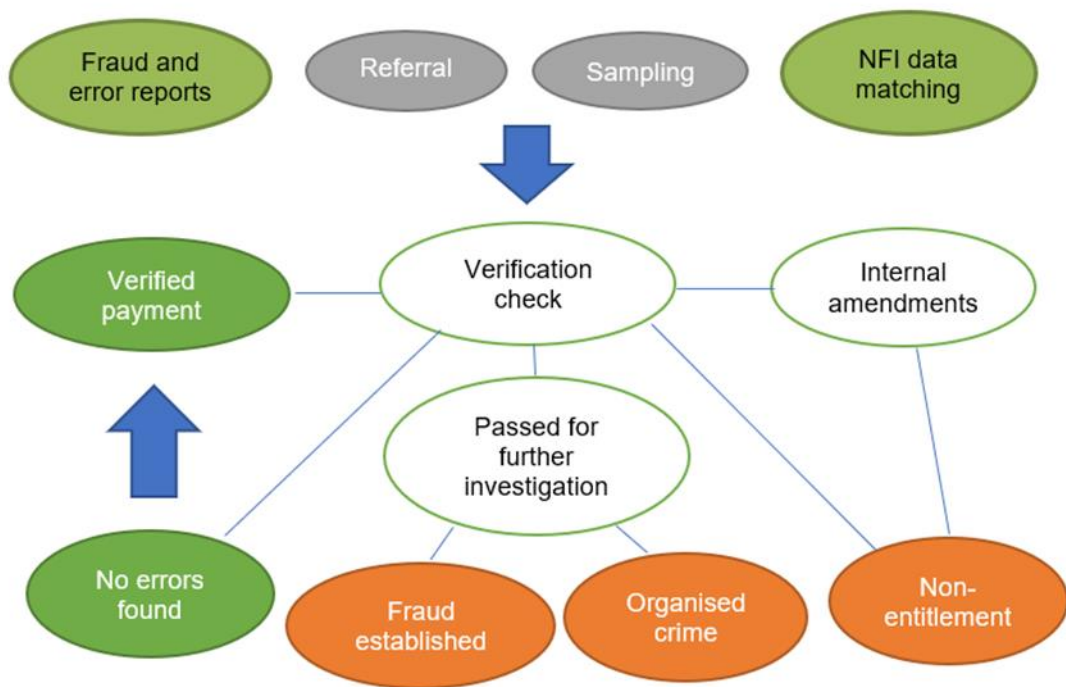
Phase Two from September 2020

- Additional Restrictions Grant
- Local Restrictions Support Grants
- Closed Business Lockdown Payment
- Christmas Support Payment
- Restart Grant

2.0 SCOPE

2.1 The Department for Business, Energy and Industrial Strategy - Post Event Assurance Plan includes different methods of highlighting fraud and error, which will be explained in further detail below. Each method includes source material which has been taken from the Covid-19 applications received by the council and matched against internal and external data. Additional enhanced checks are taken where a discrepancy has been found causing the application to be referred to an investigation officer.

The Post Event Assurance Plan Process



2.2 Timeline of Post Event Assurance

The table below provides a guide to the timeline of expected activities considering the availability of data and internal resources. The Department for Business, Energy and Industrial Strategy are also undertaking sample testing of the grants administered and post verification work undertaken.

| Quarter | Fraud/Error investigations | Sample testing | Ascendant Fraud and Error report | National Fraud Initiative | BEIS grant audit verification |
|-----------------------|----------------------------|---------------------|----------------------------------|---------------------------|-------------------------------|
| Apr - Jun 2020 | | | | | |
| Jul – Sep 2020 | | Ascendant software | | | |
| Oct - Dec 2020 | | | | | |
| Jan – Mar 2021 | | | | Phase One grants | |
| Apr – Jun 2021 | | | | Phase One grants | Phase One grants |
| Jul – Sep 2021 | | Phase One high risk | | | |
| Oct – Dec 2021 | | | | | |
| Jan – Mar 2022 | | | | | Phase Two grants |
| Apr – Jun 2022 | | | | Phase Two grants | Phase Two grants |

3.0 METHODOLOGY

- 3.1 The Council has partnered with a private company, Ascendant Solutions, to verify grant applications. This work commenced with the government’s introduction of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund. Applications are made via an online portal where data provided is matched against multiple sources of internal and external data. Each application is marked by either a green, amber, or red result – with green a low risk, moving up to red where discrepancies with data or multiple applications have been found, requiring manual verification. Each successful Small Business Grant Fund or Retail, Hospitality and Leisure Grant application has a value of either £10,000 - £25,000 depending on the eligible business criteria (as of 11 March 2020) and property rateable value – Phase Two grants vary in amounts depending on the scheme.
- 3.2 In addition to the review of Phase One and Two applications, the post assurance work will also review and highlight discrepancies with internal and external data held as part of the existing counter-fraud work. This may demonstrate incorrect business rates payers, incorrect receipt of rate relief (e.g. Small Business Rate Relief) and discrepancies found with internal awards of Housing Benefit, Council Tax Reduction, and licensing and environmental health certificates.
- 3.3 To commence this review, an initial test sample of 21 applications was randomly selected from each of the green, amber or red results following Ascendant Solutions’ verification process. Further targeted sampling would be based on the initial findings alongside known risk factors and previous examples where fraud and error have been found.
- 3.4 The information provided with each application included two forms of identity which were then compared against the following:

- **Open Source** – public information of the business’s presence online - this may highlight additional businesses in other areas, a change of business use, occupation or dissolved business prior to 11 March 2020.
- **Companies House** – verify information held on Companies House - this may highlight a dissolved limited business or business due to be struck off prior to 11 March 2020.
- **Director/Sole trader** – public information check to verify applicant exists and any associated links which may highlight duplicate business ownership.
- **Business Rates** – internal checks on documentation held in the council’s document management system and Open Revenues system – this will highlight any discrepancies held against the grant application and may show a change in the business in occupation.
- **Contact record** – internal checks on the council’s document management system – these checks may highlight discrepancies held by the council (for example a change in business rate payer or ownership of the premises).
- **Benefits** – internal checks on any active applications for Universal Credit, Housing Benefit, and Council Tax Reduction – this may highlight undeclared income from a business and false application for benefit.
- **Licensing and Environmental Health** – internal checks on the council’s document management and licensing system - this may highlight discrepancies with presentations made to the council for food safety, premises and alcohol licences against grant application data.

4.0 ASCENDANT SOFTWARE TESTING

4.1 The first stage of the review process was to conduct sample testing of the result data (green, amber, and red) produced by Ascendant and matched against manual verification checks to monitor for accuracy and quality. These checks would provide an indication as to whether assurance can be placed on the reports being produced by Ascendant.

4.2 Green

A total of 21 cases with a green result were randomly selected for this review. The 21 cases include nine limited companies and 12 sole traders. Of the grant applications, 18 claimed Small Business Grant and three Retail, Hospitality and Leisure Grant.

4.3 Outcome of green case review

All 21 applications were shown to be correctly matched against the internal and external records found. Where records were not found, such as open source checks, this can be attributed to the nature of the business or the individual trader. No discrepancies were found which warranted further investigation or highlighted that an error or fraud had occurred.

4.4 An issue was shown with two businesses trading under different names from what was held; however other information verified that the businesses remained eligible for grant assistance.

4.5 **Amber**

A total of 21 amber cases were randomly selected for this review. The 21 cases include seven limited companies and 14 sole traders. Of the grant applications, 15 claimed Small Business Grant and six Retail, Hospitality and Leisure Grant.

4.6 **Outcome of amber case review**

21 applications were shown to hold discrepancies or missing information when matched against the internal and external records found. Additional verification would therefore be necessary to reduce the risk of fraud. Where records were not found, such as open source checks, this can be attributed to the nature of the business or the individual trader.

4.7 Three cases (one limited company, two sole traders) required further investigation. One business was listed under Companies House as due to be struck off, one was found to have altered the business premises with a change of occupants and one shows the applicant vacated the premises with the grant recovered in full.

4.8 11 cases were found with inadequate identity documentation in support of their application, these consisted of old correspondence (from 2018/2019), poor quality of document causing difficulty in viewing, unofficial evidence or documentation which did not match what they had been uploaded against (e.g. credit card uploaded as lease agreement).

4.9 **Red**

A total of 21 red cases were randomly selected for this review. The 21 cases include 14 limited companies and seven sole traders. Of the grant applications, 16 claimed Small Business Grant and three Retail, Hospitality and Leisure Grant.

4.10 **Outcome of red case review**

21 applications were shown to hold discrepancies or missing information when matched against the internal and external records. Additional verification checks would therefore be necessary to reduce the risk of fraud. Where records were not found, such as open source checks, this can be attributed to the nature of the business or the individual trader.

4.11 Three cases (three sole traders) required further investigation prior to grant payment. One business was found to have received the incorrect grant (Small Business Grants instead of Retail, Hospitality and Leisure), one business showed a change of management and rate payer details, and one business was shown to have dissolved prior to March 2020 - this highlights concerns with the data held at the start April 2020.

4.12 10 cases were found with inadequate identity documentation in support of their application, these proofs consisted of old correspondence (from 2018/2019), poor quality of document causing difficulty in viewing, unofficial evidence or documentation which did not match what they had been uploaded against (e.g. credit card uploaded as lease agreement).

5.0 ASCENDANT SOFTWARE TESTING CONCLUSION

5.1 Of the initial 63 random applications reviewed, none of the applications verified by Ascendant with a green status showed irregularity and cause for further investigation. Of the amber and red cases, all showed discrepancies which were to be expected. Of the grants awarded, three amber and three red were found to require further investigation. The results of the sampling shows that the Ascendant system appears to be correctly allocating grant claims into the correct report status based on the information held by the council and therefore reasonable reliance can be placed on it.

6.0 POST ASSURANCE – PHASE ONE GRANTS

6.1 To begin the work the six cases requiring further investigation in the amber and red categories as noted in the review of the results from Ascendant above, were investigated. Five of these had claimed Small Business Grant, with five applications from sole traders. The one limited company was found to have made applications with discrepancies compared to information on Companies House records. No fraud was identified in five cases and these have now been closed resulting in an update to the liable rate payer following additional documentation to prove eligibility. One application was treated as fraudulent which has resulted in the recovery of a £10,000 Small Business Grants.

6.2 1803 applications for Small Business Grant and Retail, Hospitality and Leisure Grant were processed by Lewes District Council between April – September 2020. These applications were processed through Ascendant resulting in a green, amber or red result. The manual checking using the methodology detailed above resulted in similar outcomes with the green cases showing little or no concern, and with inconsistencies found with the amber and red cases requiring further verification. A decision was made to sample test applications with the highest degree of risk based on the Ascendant data analytics process in the red and amber categories. This consisted of 438 red cases and 653 amber applications.

6.3 Each amber and red application has been reviewed following the process detailed above or via internal or external referral. Of these, 36 applications were found to warrant review for fraud and error with 13 applications found to have been paid incorrectly. None of these cases, so far, have been found to be part of organised crime. Eight cases claimed the £10,000 Small Business Grant with five claiming a Retail, Hospitality and Leisure Grant with a total value of £190,000. Recovery of these incorrect payments are in process with an amount of £66,326 recovered to date. The percentage of fraud and error found so far is small (less than 1%) in comparison to the volume of grants administered, however additional localised and national checks are still being undertaken so no conclusion can be made at this time.

6.4 Of the cases found to be incorrectly paid, there is a mixture of reasons, for example businesses which ceased to be trading as of the 11 March 2020, or a business was subsequently found not to be eligible under the policy criteria for the scheme (i.e. not qualified for small business rate relief), or a dispute between parties following a change or transfer of the business in occupation.

6.5 The National Fraud Initiative ran a national data matching exercise for phase one grants in March 2021. All 1803 applications of Small Business Grant and

Retail, Hospitality and Leisure Grant were provided with 29 returned requiring further review. Of these cases, five (with a value of £50,000) had already been identified by internal checks and are accounted for in paragraph 6.3. In a separate exercise all bank accounts, into which grants had been paid, were provided to the National Fraud Initiative to verify the integrity the accounts through an Experian credit check.

- 6.6 As part of the Department for Business, Energy and Industrial Strategy's 'Post Payment Assurance Verification Process' a random sample of 15 Phase One applications, supporting documents and evidence of post payment checks were requested as part of this exercise. The documentation was provided to the Department for Business, Energy and Industrial Strategy in May 2021, no outcome response has been provided as of the completion date of this report.
- 6.7 National recovery guidance has now been provided by the Department for Business, Energy and Industrial Strategy for any grants awarded fraudulently, in error or non-compliance with the grant schemes. The council's internal debtor's team have been following these procedures and working with the grant recipients to arrange repayment. There are currently six Phase One Grant applications in the recovery process. An agreement with the Department for Business, Energy and Industrial Strategy is in place to transfer responsibility for grants which we have been unable to recover.
- 6.8 Full assurance and assessment of the fraud and error found in the grants paid out cannot be provided at this time as applications remain under investigation. It should also be noted that grant data is constantly being collected and analysed through post assurance work internally and nationally by the National Fraud Initiative, National Crime Agency, National Investigation Service, and other government agencies.

7.0 POST ASSURANCE – PHASE TWO GRANTS

- 7.1 The Phase Two grants, although similar in purpose, are also broader in scope than Phase One, with the introduction of grants specifically tailored to support the local and regional business industry and grants to help with post-Covid recovery. Businesses had to be either mandated to close, or impacted due to the local or national restrictions. The business needed to be operational and/or occupied on the prescribed date for the relevant scheme.
- 7.2 The variation in grants available to businesses is also reflected in the number of applications which coincided with each additional period of lockdown or restrictions due to the Covid-19 pandemic. Of the 4014 successful Phase Two applications, 3861 of these grants were paid to businesses who applied for two or more grants. With each subsequent application, further evidential documentation was required along with supplementary information of how the business is affected to meet eligibility criteria.
- 7.3 A review of Phase Two grants found that with the increasing number of multiple applications from businesses, a clearer picture of eligibility can be established. This has highlighted a potential risk with businesses who have only made one application, particularly the Phase One grants which has resulted in additional sampling.
- 7.4 A review of the Ascendant system was undertaken, this continues to be the administrative portal for applications and also where an assessment of grant

entitlement is made by the council. It was found that the system separated each grant applied for under its individual scheme and time frame. There was no evidence found of duplication. Ascendant also separates applications into red, amber and green in terms of the manual verification required. A high number of red cases had already been checked previously, during Phase One. It was found that some businesses with shared spaces, or without business premises, were given a red flag but that eligibility could be established on further investigation.

- 7.5 A review of bank accounts used for the 4014 applications found no duplication between businesses. Bank accounts used for payments were also verified against the evidence provided to match the business account held. All details obtained from successful grants in Phase Two have been provided to the National Fraud Initiative who are now due to undertake a national data matching exercise with the results expected in late Spring 2022 - this may highlight discrepancies when our data is compared to other local authorities and matched against records of organised criminals held by government agencies.
- 7.6 Unlike the Phase One grants, which required businesses to meet specific eligibility such as being in receipt of a Small Business Rate Relief or work in the Retail and Hospitality sectors, Phase two grants incorporate a larger spectrum of the business industry and Covid-19 restrictions. So, effectively, a business would be ineligible for one grant where the business was not mandated to close, but eligible for an alternative grant as this sector was covered within an separate grant scheme. 1636 Phase Two grant applications were declined and advised to apply for an alternative grant where appropriate.
- 7.7 Of the errors found, change of circumstances are the most common where a business has changed hands and the council is only made aware afterwards either through verification checks or by the new business occupier. Four Phase Two grants, with the combined value of £16,057, have been found to have been paid incorrectly and are currently going through the recovery process - this is out of £20,726,698 paid out in total for Phase 2 grants (about 0.08%).
- 7.8 It is expected that a random sample of cases for each Phase Two grant scheme will be selected by the Department for Business, Energy and Industrial Strategy for post verification auditing in the coming months. The council was requested to provided a sample of a 'Christmas Support Payment' application and supporting evidence in December 2021. This has been followed up with a request for evidence of applications for five separate grant schemes in April and May 2022.

8.0 CONCLUSIONS

- 8.1 In conducting a review of the fraud and errors found, it is necessary to first look at the Business Grant schemes as a whole - including the environment in which these grants were created during a national pandemic. It should be noted, that before Universal Credit was introduced a considerable amount of work was undertaken using a test and learn methodology with robust data of an individual and their circumstances to prevent fraud. In contrast, Coronavirus Business Grants were implemented in a matter of weeks with the data from local authority business ratepayer records used for a basis of eligibility. Business rate payer

records do not provide the same level of detail as they were formed for the basis of rates collection, not fraud prevention or grant administration.

- 8.2 Following the introduction of Small Business Grants and Retail, Hospitality and Leisure Grants, several businesses came forward presenting a change in business occupancy. This has resulted in a considerable amount of work to update records where businesses have changed hands or commenced trading. Several cases have also required individual assessments where disputes exist over grant eligibility. These challenges have taken place in periods of national restrictions where the majority of businesses were either closed or faced severe restrictions and with government expectation of a swift administration of grant payments. It is evident by the release of Phase Two grant schemes th these issues had largely been resolved resulting in a clearer picture of active businesses in operation in Lewes District.
- 8.3 The application process restricts one grant per eligible property. This limits the opportunity for duplicate grant fraud which has been an issue with other authorities. This has also helped encourage eligible businesses to come forward and support an investigation where a potential fraudulent application has been made. When factoring in incomplete or withdrawn applications, it can be shown that 1506 Phase One and Two applications were not completed. It is unclear of the reasons for these incomplete applications, but the checks and measures in place are likely to have reduced some fraudulent applications which would otherwise have claimed a grant.
- 8.4 Issues were found with out-of-date information held on the council's internal records for the actual business in occupation or trading name as of the 11 March 2020. This was a particular issue with businesses in receipt of Small Business Rate Relief and eligible to claim Small Business Grant, with a higher number found in the 'amber and red' categorisation. There is a potential therefore for fraudulent applications to be made by individuals or businesses representing themselves as the registered rate payer without appropriate prior notification to the council. There is also the potential for un-notified changes to the premises ending eligibility for purpose of grant entitlement. These anomalies are unlikely to be discovered through Ascendant verification or desktop investigations alone, there is therefore a risk cases remain undetected – this is a particular risk with Phase One grants.
- 8.5 Issues were found with supporting evidence provided for a selection of Phase One applications in each of the green, amber and red categories. There is therefore a risk an application may have been successful without adequate identification evidence. However, where subsequent grant applications have been applied for in Phase Two, additional supporting evidence has been provided and therefore a stronger case of eligibility has been established.

9.0 OBSERVATIONS

- 9.1 The initial roll out of Small Business Grants and Retail, Hospitality and Leisure Grants were introduced to support businesses at a unique and challenging time during the first national lockdown. The administration of the schemes also presented several challenges in providing financial support in a timely and efficient manner while also limiting the risk of fraud and error. If further preparation time was available, other measures may have been considered to

increase verification accuracy - such as a full review of businesses in occupation or detailed disclosure of business ownership within the district. As this was not possible at the time, further post verification checks are required on a localised and national level to establish the level of fraud and error.

- 9.2 With the introduction of subsequent national and localised coronavirus business support grants, further applications and documentational supporting evidence has been provided. This has allowed for a more up to date record of businesses operating in the district and improved the level of assurance when verifying grant applications. The highest level of discrepancies found related to undeclared changes with businesses applying for Small Business Grants and in receipt of Small Business Rate Relief, however the actual percentage of issues found is still small considering the volume of grant applications.
- 9.3 Supporting documentation evidence for Small Business Grant and Retail, Hospitality and Leisure Grant applications were found to vary in acceptable standards. This has been fed back to the grant administration team with improvement shown in the accepted documentation found in subsequent coronavirus grant applications. A higher level of verification can now be confirmed with the Phase Two scheme and those businesses which have claimed grants in both Phase One and Two.

10.0 NEXT STEPS

- 10.1 The Counter-Fraud team will undertake further sampling of coronavirus grant cases where only one application has been made. It is also expected that the Phase Two National Fraud Initiative data matching results will be released around the end of spring 2022.
- 10.2 We also expect further Post Payment Assurance audit sampling requests from the Department for Business, Energy and Industrial Strategy for the Phase Two and Phase Three grants to continue through 2022.
- 10.3 Testing will also be undertaken on the third round of grants which were administered, and this work will be reported back to the Department for Business, Energy and Industrial Strategy as well as reported internally; to management, the Corporate Management Team and the Audit and Standards Committee.

11.0 Financial Appraisal

- 11.1 There are no financial implications.

12.0 Legal Implications

- 12.1 This report takes account of regulation 5 of the Audit and Accounts Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

13.0 Risk Management Implications

13.1 If the council does not have an effective governance framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council's external auditor or the public.

14.0 Equality Analysis

14.1 An equalities impact assessment is not considered necessary.

15.0 Appendices

15.1 None.

16. Background Papers

16.1 None.

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