GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

COMMITTEE SUMMARY

Item 2(a)

28th September 2022

Title of the Audit: Chief Executives Department – COVID-19 Business Grants 2021/22

1. Introduction

1.1 In response to the COVID-19 pandemic the Scottish Government provided funding to Council's across Scotland to enable them to pay out grants to provide support to businesses. A variety of different types of grant funding have been made available since March 2020.

1.2 As part of the agreed Internal Audit plan we have carried out a review of the arrangements for payment of recent COVID-19 Grant support and funding schemes. This has been carried out on a phased approach, reviewing funding streams in the period after they have been launched in the city.

1.3 At the start of the pandemic, grant funding for small businesses and businesses in the retail, hospitality and leisure sectors was paid out by the Council and two audits were undertaken on these funds during 2020/21. This report outlines our audit of the subsequent phases of Business Support Grants:

- Strategic Framework Business Fund (SFBF) launched in November 2020. This provided financial support to businesses which were required to close by law, or to significantly curtail their operations due to COVID-19 related restrictions.
- Taxi and Private Hire Driver Support Fund (hereafter referred to as the "Taxi Fund"), launched in 2021 and provided support to local taxi drivers who had suffered a loss of income due to the pandemic.
- The Scottish Government also provided additional funding for the council to implement a Discretionary Fund to provide support to businesses who had suffered a financial detriment but who were not otherwise eligible to receive support through other COVID-19 grant schemes.

1.4 At the time of the audit approximately £146m had been paid across these three funds, as follows:

Fund	Successful applications	Value of payments (£m)
Strategic Framework Business Fund	4,628	127.661
Discretionary Fund	1,255	4.264
Taxi Fund	4,673	14.443
TOTAL		**146.368**

1.5 The scope of the audit was to ensure there was sufficient and appropriate arrangements in place for processing applications for these COVID-19 grant funds and to ensure compliance with all guidance and conditions specified by the Scottish Government. The scope of the audit included a review of:

- Policies and procedures,
- Approval and authorisation processes,

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- Records to support individual applications, and decisions made regarding grants awarded,
- Controls in place to ensure organisations received grant payments only when all conditions had been met and the necessary eligibility checks had been carried out,
- Reconciliation and reporting processes, and
- Arrangements for responding to potentially fraudulent applications and for recovering payments made as a result of fraud or error.

2. Audit Opinion

2.1 It is recognised these new systems and processes were implemented under severe time pressure during a period of ongoing strains on resources.

2.2 Based on the work carried out a limited level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and four recommendations which management should address.

3. Main Findings

3.1 We found that some of the expected key controls were in place and were operating as intended. Adequate documented procedures were in place for both the SFBF and Discretionary Fund, which included the appropriate eligibility criteria and processes to be followed by staff when assessing and processing applications. Eligibility checks and other relevant controls, such as linking application data to the Non-Domestic Rates and Licensing systems, had been developed and implemented for each of the funds.

3.2 A valid completed application form was in place for all payments reviewed, and we found that no applications had been accepted and processed after the defined cut-off date for each of the funds. We also confirmed that financial reports and returns had been completed and filed with the Scottish Government in accordance with the required timescales and guidelines.

3.3 However, we also identified some areas where key controls were not in place and several opportunities for improvement.

- A documented procedure was in place for the Taxi Fund, but this was incomplete and had not been formally approved by management.
- There are no arrangements in place to reconcile successful grant applications and other source data to information in the financial ledger; this has been a raised in a previous audit report.
- While pay runs were subject to approval by senior management, there was no requirement for a second officer to review and authorise approved grant applications.

3.4 There are arrangements in place to identify, document and investigate potentially fraudulent grant applications. However, there is currently no formal debt recovery

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framework in place which would facilitate the recovery of payments resulting from error or fraud. Recovery work to date has been ad-hoc and no formal decision has been taken by management as to when or how overpayments will be pursued. This has been highlighted in a previous audit report.

3.5 We undertook sample testing on 15 SFBF, 10 Discretionary Fund, and 10 Taxi Fund payments and identified irregularities which show that some controls were not operating effectively. The main issues we identified are noted below and further explored in the action plan:

- Payments made to ineligible businesses, or businesses awarded a higher value of support than what they were eligible to receive,
- Data entry and processing errors, and
- Insufficient audit trail/documentation to fully substantiate approved applications.

3.6 We also utilised data analytics for each fund and identified several anomalies and overpayments related to the SFBF, including:

- 6 overpayments totalling approximately £16k made to businesses who had already received support from another local authority, in contravention of Scottish Government rules. However, we have confirmed that these amounts were recovered from subsequent grant payments made to the recipients.
- 33 cases where businesses had received a higher level of financial support than they were eligible for, resulting in a total overpayment of approximately £17.8k.
- 41 cases where ineligible businesses had been supported, resulting in a further overpayment of approximately £59.3k.
- 2 duplicate payments which amounted to approximately £10k.

3.7 An action plan is provided at section four outlining our observations, risks and recommendations. We have made four recommendations for improvement. The priority of each recommendation is:

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Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	2
Medium	Less critically important controls absent, not being operated as designed or could be improved.	2
Low	Lower-level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and / or efficiencies have been identified.	0

3.8 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.9 We would like to thank officers involved in this audit for their cooperation and assistance.

3.10 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

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4. Action Plan

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No.	Observation and Risk	Recommendation	Priority	Management Response
1	Through our discussions with officers, we established that grant data is regularly extracted from a database to facilitate ongoing monitoring and provide appropriate management information. However, despite recommendations made in a previous audit, there are still no arrangements in place to reconcile information contained in the management information reports to the financial ledger. We were advised that resources were insufficient within the service to put such processes in place. During our sample testing and analytical procedures, we identified several duplicate payments and data-quality issues in the source data files. If reconciliations are not regularly undertaken, there is a risk that anomalies and discrepancies are not identified and corrected on a timely basis, which may consequently result in financial loss. There is also an increased risk that decision	Management should ensure that a full reconciliation exercise is conducted for the SFBF, Discretionary Fund and Taxi Funds. This process must reconcile the number of grant awards to the number and value of payments which have been processed through the financial ledger. Where anomalies or discrepancies are identified these should be fully investigated with timely corrective action taken to address them.	**Medium**	**Response:** Agreed. All COVID grants relating to the Omicron variants administered by Economic Development from January 2022 have been reconciled to ledger as per the recommendations made by Internal Audit. Work is ongoing with colleagues in Corporate Finance to review all support administered since March 2020. **Officer Responsible for Implementation:** Head of Investment, International and Innovation **Timescale for Implementation:** 31 December 2022

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No.	Observation and Risk	Recommendation	Priority	Management Response
	making is based on inaccurate or misleading information.			
Key Control: Erroneous and fraudulent grant payments are fully investigated and recovered.				
2	There are provisions in place for the identification, investigation, and documentation of potentially fraudulent grant payments. This has resulted in several fraudulent payments being identified, with future payments to these applicants being withheld or rejected. However, there is no formal framework which would facilitate the recovery of grant payments made as a result of fraud or error. There has previously been some discussion where the Scottish Government indicated that Councils would be permitted to retain 50% of any amounts which were recovered. We were informed that, to date, this has yet to be fully confirmed by the Scottish Government and therefore has not been acted upon by management. During our audit procedures we identified over £85k in grants which were paid due to error or fraud which had yet to be identified, and therefore have not been recovered. We obtained some evidence to demonstrate that	Management should liaise with the Scottish Government to obtain formal confirmation that overpayments can be recovered, and that a proportion of recovered funds can be retained by the Council. Thereafter, in consultation with Financial Services and Legal Services, management should put in place appropriate procedures to pursue and recover grant payments made due to error or fraud. This document should include the appropriate method and timescales for recovery. Where a decision is taken to recover an overpayment, an invoice should be raised via the Council's financial system to provide a sufficient and appropriate audit trail.	**High**	**Response:** **CED:** Agreed. We have liaised with the Government and confirmed that any amounts recovered in relation to error/fraud can be retained by the Council. Consultation with colleagues in Finance and Legal Services to take place. **FS:** Agreed. FS will work with CED colleagues to facilitate invoice production and recovery activities in line with the Council's Corporate Debt Policy. **Officer Responsible for Implementation:**

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	occasional ad-hoc recovery work is being undertaken as and when overpayments are discovered. However, these processes are informal and currently only involve contacting the payee by e-mail and requesting that they return the payment. Without a documented and robust debt-recovery framework in place there is an increased risk that amounts owed to the council are not identified or fully recovered.			**CED:** Head of Investment, International and Innovation **FS:** Head of Customer and Business Services **Timescale for Implementation:** Discussion with Scottish Government: Completed. Consultation with Finance/Legal: October 2022
Key Control: Eligibility and verification checks are undertaken prior to the award of funding				
3	We selected a sample of 15 SFBF, 10 Discretionary Fund, and 10 Taxi Fund payments for review and identified several anomalies within the SFBF and Discretionary Fund samples. **Strategic Framework Business Fund** The level of funding awarded depended on the nature of the business, the level of restrictions,	Management should undertake a review of SFBF data to identify cases where funding was made available to ineligible applicants. This may involve sample checking of records by a second officer to ensure that the award of support is valid. Where any erroneous payments are identified, these should be formally	**High**	**Response:** Agreed. Due to resource constraints and constantly changing guidance, staff were faced with significant difficulties in processing SFBF applications.

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	and the rateable value of the business premises. • Two claimants were awarded the incorrect level of grant, resulting in overpayments of £750 and £1,275. • One claimant was ineligible during the initial lockdown period but was awarded a grant in error, resulting in an overpayment of £2,500, and • In one case, the rateable value of the premises had been input incorrectly in the database, however in this case this did not impact the level of grant paid. **Discretionary Fund** To qualify under the discretionary fund, applicants had to have suffered a financial detriment (e.g., a material reduction in turnover) and should not have received funding from other COVID-19 support schemes. The level of funding was dependent on the number of staff employed by each applicant. We noted the following issues during our sample testing:	documented. Where appropriate, recovery action should be taken in accordance with the required debt recovery framework outlined in Recommendation 2. For any future COVID-19 grant schemes, a proactive approach should be taken to ensure grants are awarded to only eligible applicants. This should include spot-checking of a proportion of approved awards by a second officer before payment is made.		SFBF data will be reviewed during the reconciliation process outlined in Recommendation 1. Prior to the launch of all the Omicron related funding (January 2022) a review of all potential applicants was carried out to ensure only those who met the eligibility criteria were invited to apply for their specific sector support. Any future grant pay runs will be sample checked by a second Officer as recommended. **Officer Responsible for Implementation:** Head of Investment, International and Innovation **Timescale for Implementation:** 31 December 2022

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	• We identified one case in our sample where the evidence in place suggested that the applicant had created a business specifically for the purpose of receiving a grant. • In two cases we found there was insufficient documentary evidence in place to fully substantiate the award of support. While we recognise that some degree of error is difficult to avoid in this situation, if eligibility checks are not operating effectively there is an increased risk that support is awarded to ineligible businesses.			

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Key Control: Written procedures and processes are in place to provide guidance on assessing grant applications.				
4	Documented procedure notes are in place for each of the funds under review. While the procedures in place for the SFBF and Discretionary Funds were sufficient and appropriate, we found that the Taxi Fund document was still in draft form and had not yet been approved by management. The document was also still showing changes and included queries, and consequently the actual processes to be followed by staff were unclear. Without adequate document procedures, there is an increased risk that incorrect processes are followed.	Management should ensure that written documented procedures are developed for all future COVID-19 grant funding schemes. Before implementation, these documents should be fully reviewed and approved by management. If any changes are implemented, then the procedure documents should be reviewed and updated by management as appropriate.	**Medium**	**Response:** Agreed. The design and implementation of the Taxi Driver Fund was done jointly between Licencing and Economic Development. Appropriate procedures were in place for all Omicron related COVID-19 grant funds. Future tranches of COVID-19 Business Grant funding are not anticipated at present. **Officer Responsible for Implementation:** Head of Investment, International and Innovation **Timescale for Implementation:** Complete.

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