

GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

COMMITTEE SUMMARY

Item 2(a)

17th March 2021

Title of the Audit: Development and Regeneration Services and Financial Services - COVID-19 Business Grants (Phase one)

1. Introduction

- 1.1 We have carried out a first stage review of the COVID-19 business grant arrangements in place within Glasgow City Council (GCC). This report provides details of the findings identified as a result of this review. This report is intended to provide an initial assessment of the arrangements in place, with a further review planned during 2020/21 to cover the subsequent roll out phases of the process.
- 1.2 In response to the COVID-19 pandemic, the Scottish Government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors who were registered for Non-Domestic Rates (NDR) purposes. This support was provided through the payment of a COVID-19 business grant, aimed at helping businesses deal with the impact of the pandemic. Applications for the COVID-19 business grants were assessed at a local authority level with re-imburement to local authorities being provided through the Scottish Government. Within GCC, Development and Regeneration Services (DRS) and Financial Services (FS) have responsibility for the assessment and processing of COVID-19 business grant applications.
- 1.3 Two grant amounts (£10,000 or £25,000) were available for eligible businesses to claim under phase one of the COVID-19 business grants, with eligibility criteria for each agreed by the Scottish Government. For phase one, 10,764 applications were received and assessed by GCC, with 9,258 (86%) being assessed as successful and payment being made. We found that, at the time of the audit fieldwork, payments totaling £109.38m had been made in respect of the phase one

successful applications.

- 1.4 The scope of the audit was to review the arrangements in place in relation to processing of COVID-19 business grants. The scope of the review included:
- Ensuring that written procedures and processes are in place to provide guidance on assessing and processing COVID-19 business grant applications;
 - Ensuring that appropriate arrangements are in place for the review and authorisation of COVID-19 business grant applications;
 - Ensuring that all required checks are carried out, as per the procedures, prior to payment of COVID-19 business grants being approved;
 - Confirming that COVID-19 business grant payments are only made on receipt of a valid application form;
 - Ensuring that appropriate reconciliation processes are in place;
 - Confirming that checks are carried out to stop multiple business grant payments being made to the same business; and
 - Ensuring that appropriate arrangements are in place which seek to counter potential fraudulent applications.

2. Audit Opinion

- 2.1 It is recognised these new systems and processes were necessarily implemented under severe time pressure during a period of ongoing strains on resources and working arrangements. Based on the work carried out a limited level of assurance can be placed upon the control environment.

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The audit has identified scope for improvement in existing arrangements and six recommendations which management should address. In addition to the normal follow up procedures by Internal Audit, further assurance work is currently being completed, including data analytics to identify fraudulent or erroneous grant claims. Additional audit work is also planned for the additional phases of business grants rolled out since phase 1.

3. Main Findings

- 3.1 We found that arrangements for payment of the COVID-19 business grants were in place. We selected a sample of 20 COVID-19 business grant payments made and were able to confirm that a valid application form was available in all cases reviewed, and that payment had been made to the bank account details provided in the application. We also selected an additional 20 COVID-19 business grant applications and traced these through the payment process. For both samples reviewed, we were able to confirm that the payment authorisation processes were being followed. Reports and emails are received by GCC from various sources including NAFN (National Anti-Fraud Network), SLAIG (Scottish Local Authorities Investigators Group), SLACIAG (Scottish Local Authorities Chief Internal Auditors Group) and Police Scotland, advising of potentially fraudulent activities and these details are passed onto DRS for information and for review when processing COVID-19 business grant applications.
- 3.2. However, our audit testing also identified some areas of non-compliance. We reviewed a sample of 20 phase one business grant applications that had been verified and paid by GCC and found two cases where the evidence saved in

relation to the application was incomplete or inaccurate. During the course of the audit, we conducted a data match sample exercise to identify potential duplicate payments and found one case where an overpayment of £2,500 had been made to an applicant and a further case where a duplicate payment amounting to £10,000 had been made. These were highlighted to the appropriate officers within DRS who agreed that these would be followed up for recovery. A review of the recovery process in place for cases where a duplicate or overpayment has been made will be undertaken as part of phase two of the audit.

- 3.3 Manual records are maintained for phase one COVID-19 business grant applications on EDRMS (Electronic Data Record Management System) and we found that access to applicant information, including bank details, had not been appropriately restricted. We also found that officers involved in the processing and assessment of COVID-19 business grant applications were not asked to complete conflict of interest forms.
- 3.4 Our audit testing identified that reconciliations were not being undertaken to monitor the total amount being paid out in relation to COVID-19 business grants. GCC are required to make a return to the Scottish Government to confirm payments made in respect of COVID-19 business grants. However, formal arrangements for the reconciliation have not yet been established.

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3.5 Details of national fraud lists are distributed amongst teams processing COVID-19 business grant applications, and verifiers have been advised to search fraud lists prior to processing grant payments. However, there is no formal evidence to demonstrate that this is being completed and this requirement was not included in the documentation in place.

3.6 We plan on undertaking further audit work in relation to the arrangements in place for the subsequent phases of the COVID-19 business grants during 2020/21. This will include a review of the action taken to address the issues identified in the phase one review. This will also include an update on the findings from a pilot data matching exercise commissioned by the Scottish Government and undertaken by Ernst and Young in relation to COVID-19 business grants.

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

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	3
Medium	Less critically important controls absent, not being operated as designed or could be improved.	3
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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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Checks are carried out to stop multiple payments being made to the same business				
1	<p>During the course of the audit, we conducted a data match sample exercise of bank details for COVID-19 payments made to establish if any duplicate payments had been made to a business. From this, we identified one case where an overpayment of £2,500 had been made to an applicant and a further case where a duplicate payment amounting to £10,000 had been made. These were highlighted to the appropriate officers within DRS who agreed that these would be followed up for recovery.</p> <p>Although we found that arrangements were in place to identify and follow up on potential duplicate or overpayments, these were relatively informal. We were advised that additional controls to identify potential duplicate and fraudulent payments have been put in place for subsequent phases of the COVID-19 business grants and these will be assessed as part of the phase two audit to be undertaken.</p> <p>This increases the risk that the arrangements in place are not sufficient to ensure that potential duplicate and overpayments are identified.</p>	<p>Management should ensure that appropriate control arrangements are put in place to stop overpayment or duplicate payment of grants for all COVID-19 related grants administered by GCC.</p> <p>Management should ensure that appropriate action is taken to recover the overpayment and duplicate payment identified during the audit as well as any other overpayments that are identified as a result of the other data-matching exercises that are currently being carried out.</p>	High	<p>Response:</p> <p>Accepted</p> <p>Support Officers within DRS now check each individual payment against a master BACS spreadsheet to identify any duplicate payments that have been made.</p> <p>Officer Responsible for Implementation:</p> <p>DRS Group Manager (Business Growth); DRS Business Support Officer</p> <p>Timescale for Implementation:</p> <p>New process implemented from July 2020</p>

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Key Control: Appropriate arrangements are in place for the review and authorisation of COVID-19 business grant applications				
2	<p>We reviewed a sample of 20 phase one COVID-19 business grant applications that had been verified and paid by GCC and found the following issues:</p> <ul style="list-style-type: none"> • One case where the application had not been fully completed; and • One case where the bank account details on the application form had not matched the bank statement provided. <p>Although we were informed that local evidence may be in place to demonstrate the validation undertaken for applications with incomplete or inaccurate data, these were not accessible and could not be provided during the audit. We were advised that a new database has been introduced for phase two of the audit which has the capability of storing supporting notes in relation to action taken. This will be reviewed as part of phase two of the audit.</p> <p>This increases the risk that appropriate validation of applications is not taking place and payment is made on invalid applications.</p>	<p>Management should put arrangements in place to ensure appropriate record keeping of all actions taken by officers in the verification of applications is maintained. This should include cases where data provided was incomplete or omitted and should be in place for all COVID-19 related grants administered by GCC.</p>	<p>High</p>	<p>Response:</p> <p>Accepted</p> <p>Subsequent databases for various phases now have a notes page which Verifiers are encouraged to complete. This should ensure that any issues/discrepancies are highlighted.</p> <p>This will continually be raised by Team Managers and included in all training/process documents.</p> <p>Officer Responsible for Implementation:</p> <p>DRS Group Manager (Business Growth); DRS Business Support Officer; Team Managers</p> <p>Timescale for Implementation:</p> <p>A new database system was introduced end of April / beginning of May 2020 which should address this.</p>

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Key Control: Appropriate arrangements are in place for the review and authorisation of COVID-19 business grant applications				
3	<p>Manual records are maintained for phase one COVID-19 business grant applications on EDRMS (Electronic Data Record Management System) and we found that access to applicant information, including bank details had not been appropriately restricted.</p> <p>This increases the risk of unauthorised access to personal information.</p>	<p>Management should ensure that arrangements are put in place to ensure that applicant data is appropriately restricted for all COVID-19 related grants administered by GCC.</p> <p>Management should ensure that a review of access to the phase one applicant data is undertaken and ongoing access levels updated as required.</p>	High	<p>Response:</p> <p>Accepted</p> <p>Enquiries will be made as to whether the EDMRS folder, at the highest level, can be password protected.</p> <p>Officer Responsible for Implementation:</p> <p>DRS Group Manager (Business Growth); DRS Business Support Officer</p> <p>Timescale for Implementation:</p> <p>31 January 2021</p>

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Key Control: Appropriate arrangements are in place for the review and authorisation of COVID-19 business grant applications				
4	<p>We also found that officers involved in the processing and assessment of COVID-19 business grant applications were not asked to complete conflicts of interest forms.</p> <p>This increases the risk that officers are not fully aware or do not follow the appropriate processes in relation to conflicts of interest.</p>	<p>Management should ensure that all officers involved in the processing of all COVID-19 related grants complete the necessary conflicts of interest declaration.</p>	<p>Medium</p>	<p>Response:</p> <p>Accepted</p> <p>All staff are informed during training and it is included as the first point within the Grant Process and Procedures document.</p> <p>Use of any existing templates in place can be rolled out for schemes that come on board in 2021.</p> <p>Officer Responsible for Implementation:</p> <p>DRS Group Manager (Business Growth); DRS Business Support Officer</p> <p>Timescale for Implementation:</p> <p>31 January 2021</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate reconciliation processes are in place				
5	<p>Our audit testing identified that reconciliations were not being undertaken to monitor the total amount being paid out in relation to COVID-19 business grants. Although we found that some reconciliations are being undertaken, these do not currently take into account numbers of application forms accepted, rejected and deferred and information is not reconciled to the financial ledger.</p> <p>GCC are required to make a return to the Scottish Government to confirm the value of payments made through the COVID-19 business grants to enable GCC to claim for the value of payments made and, if required, identify and return any unspent balance of funding received. However, we found that arrangements for the reconciliation have not yet been put in place.</p> <p>Without appropriate reconciliation arrangements in place, there is an increased risk that grant payments are not accurately reported to and recovered from the Scottish Government.</p>	<p>Management should ensure that appropriate evidence is retained for all COVID-19 related grants administered by GCC.</p> <p>Management should ensure that formal arrangements are put in place to facilitate the return to the Scottish Government for this and any future COVID-19 related grants administered by GCC.</p>	Medium	<p>Response:</p> <p>Accepted</p> <p>Weekly returns were provided to Scottish Government, however, it is recognised that a reconciliation exercise needs to be carried out against the finance ledger.</p> <p>This work needs to be done for Scottish Government in the New Year, however, competing priorities and pressures on resource have prevented this exercise to be carried out.</p> <p>Officer Responsible for Implementation:</p> <p>DRS Group Manager (Business Growth); DRS Business Support Officer</p> <p>Timescale for Implementation:</p> <p>28 February 2021</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate arrangements are in place to counter fraudulent activities				
6	<p>Although details of national fraud lists are distributed amongst teams processing COVID-19 grant applications, and verifiers have been advised to search fraud lists prior to processing grant payments, there is no formal evidence at present which demonstrates that this is being completed, and guidance on the checks to be carried out is not included in the written procedures.</p> <p>This increases the risk that appropriate fraud checks are not being undertaken for applications received.</p>	<p>Management should ensure that, for all COVID-19 related grant payments administered by GCC, formal guidance is provided to officers involved in the verification of applications to advise them on the fraud checks that should be undertaken as part of the verification process.</p>	Medium	<p>Response:</p> <p>Accepted</p> <p>Colleagues in Internal Audit now provide a national fraud sheet. This document is shared with Verifiers to check payments being made did not appear on this list. Finance colleagues also check this sheet as a further mitigation.</p> <p>Where any fraud is identified, this is captured and fed back into Internal Audit.</p> <p>Officer Responsible for Implementation:</p> <p>DRS Business Support Officer</p> <p>Timescale for Implementation:</p> <p>New process implemented from June 2020.</p>