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Welcome to the ninth edition of 'An Internal Audit View'

In this bulletin, there is inevitably a distinctly Covid-19 theme reflecting some of the risks and challenges that the local government sector faces from the ongoing pandemic. Internal audit remain well placed to help organisations identify and manage those risks by acting as a critical friend. Please contact your Head of Internal Audit for further advice.

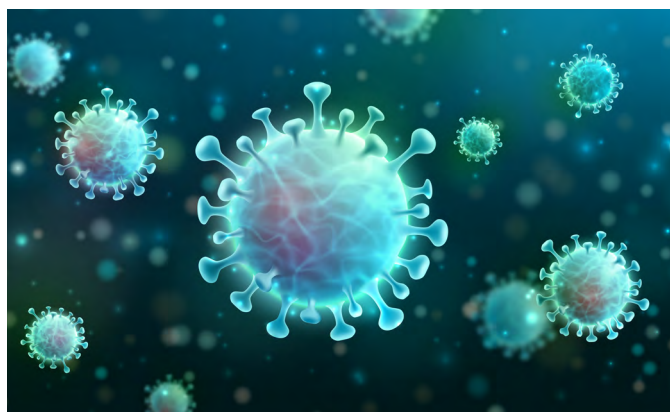
COVID-19 and the Internal Audit Response

Unsurprisingly, like all public sector services, the Coronavirus pandemic, and the associated lockdown, will have had a significant impact upon Internal Audit, including the way in which auditors carry out their work, the nature of the work they are able to carry out and the extent to which planned activities can be delivered.

Whilst all internal audit teams will potentially have responded differently to Covid-19, they will have done so based on the specific circumstances and priorities of their respective organisations. There is therefore, no right or wrong response - but what is important is that your internal audit service will have worked with you to adapt, adjust and re-prioritise its work in order to support your council in the delivery of essential front line services.

Given the skills and experience of internal auditors, along with the extensive organisational knowledge and intelligence often available within internal audit teams, our service is uniquely placed to be able to assist services across the entire organisation in their response to the pandemic. In some cases, this will have involved the redeployment of internal audit staff, whilst in others, audit and assurance activities will be refocussed on new and emerging risk areas. In the case of Covid-19, these will be considerable and extensive, impacting on not only the way in which council services are delivered and the way in which virtually all staff have had to work, but also on the very nature of council services themselves.

As a result of the original lockdown and the continuation of remote working arrangements within most local authorities, many systems, processes and activities throughout our organisations have needed to be adapted in very short timescales. As such, this increases the risk that established internal controls are weakened or lost. A proactive internal audit service will therefore be working with management to identify where key business process changes have taken place, and where urgent workarounds have been required, in order to provide advice and assurance that these remain robust. This will include issues associated with staff working and accessing



COVID-19 and the Internal Audit Response (continued)

systems remotely, as well as challenges arising from not being able to access/operate paper-based systems.

Examples of other areas where you could expect support from your Internal Audit service include:

- Business Grants – providing advice on the appropriate level of verification and control over grant payments to local business;
- Personal Protective Equipment (PPE) – helping councils with the safe and effective procurement of the correct standards of PPE and then with subsequent distribution arrangements;
- Key Financial Systems / Payment Controls – providing assurance that your council's key financial systems remain robust and effective in light of changing conditions. This is especially important in relation to payment controls and the increased urgency in this area, be they payments through your main accounts payable system, through the use of procurement cards or via other arrangements;
- Counter Fraud – the sheer scale and pace of change brought about by the Coronavirus pandemic has greatly increased the risk of fraud against local authorities. As such, Internal Audit can plan a key role in not only helping to ensure controls remain in place to help prevent fraud, but also to undertake proactive work, especially in higher risk areas, to help identify potential fraud;

Ultimately, every council in the country has needed to adapt and respond to this pandemic on a scale most of us will not have experienced in our lifetimes. In such circumstances, it is essential that our organisations utilise every support mechanism available, including Internal Audit - a service whose value, in this situation, should not be underestimated. For further information, please contact your head of internal audit.



COVID-19 Support Grant Frauds

Local authorities have played key role during the COVID-19 pandemic. They have had to maintain existing services and also provide new support to residents and businesses alongside managing changes to working practices with many staff being required to work from home. Despite these changes, councils have also needed to remain vigilant to prevent losses due to fraud and error.

Small Business Grant Fund and the Retail Hotel and Leisure Grant Fund

In March 2020, when the first national lockdown measures came into force across the country, the government announced what would transpire to be the first round of measures to support local economies. This took the form of a package of grant fund payments for businesses

in England that had a business rates liability. This was quickly followed by the Local Authority Discretionary Grant Fund which aimed to support businesses that had no fixed property costs (i.e. not linked to a business rates liability). Unfortunately, these schemes were targeted by fraudsters locally and also by organised criminals both in this country and overseas.

The priority for the government was to ensure financial support was made available to local businesses as quickly as possible. Councils therefore had to quickly interpret often limited government guidance on funding eligibility criteria in order to set up their schemes and roll out application processes. The guidance on counter fraud measures was made available later with many

COVID-19 Support Grant Frauds (continued)

resources only being announced several weeks into the support scheme operation. Councils therefore used their experience in assessing applications to implement measures to deter and detect fraud, starting with robust application processes and using fraud aware staff to carefully assess each application.

Identifying the Fraudsters

Billing authorities already hold information on business properties in their area, including who is recorded as liable for business rates. For the major grant schemes, liability for business rates and ongoing trade on 11 March 2020 were key eligibility criteria. However, applications were being received from parties not previously registered at potentially qualifying properties. Were these applications legitimate and why hadn't these businesses declared themselves sooner?

Many of the issues were different. Some applicants had not notified the council of occupation, often because they wanted to avoid paying business rates. With their need for financial support to stay solvent, these business were now asking to be made liable retrospectively. Other applicants had ownership or occupation of a qualifying property but were not trading as they stated. Most councils used online application processes. While this proved to be a quick and effective data collection method, online portals attracted organised criminals who could submit multiple applications to authorities across the country.

As well as providing guidance on counter fraud measures, the government also made some additional tools available. Councils were given access to the government's Spotlight software which allowed mass checking of Companies House data. Unfortunately this proved to be of limited use as it only allowed applications made by registered companies to be checked and provided no assurance for those claiming to be smaller businesses, such as sole traders. In addition, there was nothing to show that a registered company was actually trading on the relevant date.

The Cabinet Office, in agreement with the credit reference agency Experian, also provided bank verification checks that allowed councils to confirm that the bank account to which payments were made was registered to the named grant applicant. Unfortunately, the solution did not cover all banks and, like Spotlight, was only of partial use. Those authorities using the Faster Payments Scheme¹ (as opposed to BACS payments) were already able to access this level of checking without further charges and investigate applications that returned issues.

Revenues teams often had to verify each application to establish if occupation and trade took place. In some instances this necessitated requesting copies of leases and financial documentation demonstrating trade. Those individuals trying to fraudulently obtain funding have produced forged lease agreements, invoices and utility



COVID-19 Support Grant Frauds (continued)

bills to mislead local authorities. Council officers, including investigation staff, conducted checks to identify false applications and prevent incorrect payments. The National Anti-Fraud Network (NAFN) in cooperation with National Investigation Service (NATIS) mobilised information sharing about organised frauds for dissemination amongst councils. Details of fraudulent attempts including the business names, bank accounts and forged documents being used were circulated regularly to ensure that false applications could be identified and rejected without incurring financial loss. NAFN reported receiving contact from 100 local authorities about fraudulent attempts totalling more than £8 million.

Whilst NATIS has taken the lead with investigating fraud committed by organised criminals operating nationally, local authorities have had to find ways to tackle fraud committed at a local level. However, local authority counter fraud capabilities are limited. As the most recent

CIPFA fraud and corruption tracker survey found only 59% of councils who responded had access to counter fraud specialists. Those councils with the relevant expertise are able to investigate cases to a criminal standard and take action but the options are more limited for those councils without access to dedicated resources. In all cases, recovery of lost funds has been a priority. Central government has promised to fund irrecoverable losses caused by fraud, but councils must first attempt recovery. As yet there are no specific powers available to councils to help with this.

This year the National Fraud Initiative will include matches targeting COVID-19 grant frauds. Pilots have been running ahead of the national exercise due in early 2021 but the rate of success is yet to be reported.

The Role of Internal Audit

In many councils Internal Audit has been directly involved in the processing and verification of these grants, or has provided support to the teams dealing with them. This reflects the knowledge and expertise available to auditors. Where support has been given this has included providing advice on the design and initial set up of the systems, undertaking pre and post assurance checks on samples of payments, the completion of fraud risks assessments and the sharing of intelligence. Those councils without access to dedicated counter fraud specialists have also needed Internal Audit to investigate cases.

Future of COVID-19 Fraud Risks

Local authorities now find themselves charged with administering payments to residents who face loss of earnings through the Test and Trace Support Payment scheme. In October the government introduced a tiered system of restrictions in England which was accompanied by new support for businesses in the higher tier 2 and 3 areas. These arrangements may continue to be updated and refined as the government attempts to bring the virus under control. Councils will therefore need to continue using their local resources and national networks to carry on protecting public funds from potential fraud while trying to maintain crucial support to businesses and the local economy. The active sharing of intelligence and lessons learnt continues to be essential.



Learning from Covid-19

The Covid 19 pandemic has presented a considerable challenge to Local Authorities and the wider Public Sector. Local Authorities were expected to, and have, assisted in this national crisis, protecting the most vulnerable in society and helping the wider population and economy respond and adjust to the challenges faced.

We now know that Covid will be with us for some time to come; hopefully the roll out of vaccines will be quick and effective, but it is right that organisations consider how they responded to the crisis; it is expected that this should be completed using a “what went well” and “even better if” approach, recognising the efforts and contributions made by staff at all levels within the organisation, but also identifying what could be done better and how organisations can effectively learn to address potential similar crisis that may present in the near future.

An independent review of organisational response should be particularly valuable for senior management and members, giving the opportunity for honest discussion and a high level of support and challenge when reviewing their experience and performance during the response phase.

A review is likely to focus on three core questions:

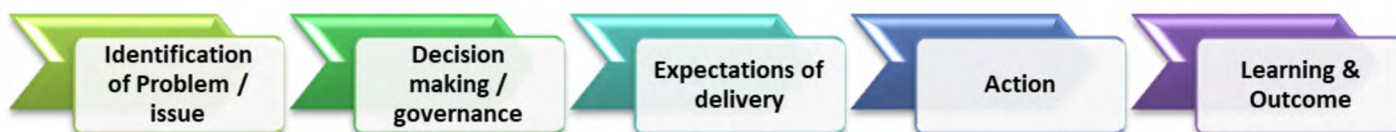
- How prepared were we?
- How well did we perform?
- What can we achieve better in the future?



Senior management will want to have a clear understanding of what happened, what was done and why, as well as what needs to carry on or indeed now stop. This is likely to lead to 8 core areas/themes which will require further examination and consideration:

- Preparedness
- Co-ordination
- Resourcing and resource implications
- Communications
- Health and Welfare
- Business Continuity
- Warning and Informing
- Decision Making

The following process is likely to be followed to provide the required examination:-



The Audit Committee is most likely to want further assurance that financial decision making was robust and reliable in these exceptional times; that the risk of fraud was minimised and that value for money was achieved in emergency spending. To support this, a detailed review of the process followed for key financial spend can be completed by your internal audit team – again it is expected that this will predominantly be completed using the “what went well” “even better if” approach, but if concerns are identified that could suggest fraud or misappropriation then a full, and robust, investigation will be required.

Please make contact with your internal audit team to obtain independent support for an organisational review of your response to the pandemic, or for a detailed review of some of the key financial decisions that have been made.

High and critical priority internal audit recommendations

The god of transitions and dualities in ancient Roman religion and mythology, Janus is portrayed with two faces, one facing the past and one facing the future; Janus also holds a key in his right hand, which symbolises protection of doors, gates and thresholds and other separations or openings between spatial boundaries. Almost the god of internal audit then!

How is this relevant though? Well in internal audit, we engage in horizon scanning to systematically identify future risks, opportunities, trends and developments, i.e. what lies down the road that may impact on our organisations us in the future. It is also important that we learn lessons from the past and implement them in the present so that we don't repeat them in the future. It is wholly appropriate therefore that we share some of the themes emerging from the high and critical priority recommendations made as a result of our internal audit work in the last twelve months, many of them in the context of COVID-19 assurance, but others predating the pandemic.



COVID-19 continues to pose significant challenges to Councils' governance arrangements, controls and processes. Councils have acted with unprecedented speed in their response to the rapidly and constantly unfolding COVID-19 pandemic. They have delivered

large-scale projects, enacted Government policy and transformed service delivery and ways of doing business against the backdrop of urgent stakeholder need and incomplete and changing information, data and guidance. This has altered the risk and control environment in which Councils are operating. Against this backdrop, internal audit has been advising on 'old fashioned' governance and controls such as robust audit trails to allow Councils to demonstrate the basis on which decisions are made or actions taken. In the absence of records, data and information, Councils may not be able to justify actions taken in the event of challenge, appeal or where material issues have arisen.



The financial resilience of contractors and suppliers was a hot topic in the period following the collapse of Carillion in 2018 but has been amplified in the context of the Covid-19 pandemic. Internal audit recommendations have helped our Councils to identify concerns with contractor failure planning and business continuity, find innovative and common-sense solutions to manage and support contractors in financial difficulty and develop assurance frameworks and strategies to triangulate intelligence (internal and external) to inform risk assessments and the nature and extent of contract monitoring.

High and critical priority internal audit recommendations (continued)

[The recently published National Audit Office \(NAO\) investigation into government procurement and use of emergency procurement regulations](#) during the Covid-19 pandemic was an illuminating read. Many of the issues raised by the NAO have echoes in local government, and it is no surprise that internal audit reported findings on non-compliance with contract procedure rules, use, review and approval of single tender actions, auto-renewal of contracts, adequacy of contract documentation and updating contract registers."Chris Wood" on page 8

[The demise of Robin Hood Energy](#) recently shone a light on council-owned trading companies showing once again why they are a risk and included within many internal audit plans. The lessons learned from Robin Hood Energy have been well documented, but internal audit work continues to unearth concerns relating to transparency of reporting, strategic business and financial planning and especially governance. Conflicts of interest, blurring of lines between executive and non-executive directors, expenses and remuneration, board training, experience and composition,

use of Council-owned property and assets contrary to codes of conduct and shareholder protection have all featured in recent internal audit findings.

With the COVID-19 response dominating our attention, we should not forget the 'business as usual'. Internal audit continues to highlight high priority concerns in such diverse areas as safe recruitment, health and safety ([reinforced autoclaved aerated concrete](#)), misuse of Amazon accounts and procurement cards, residential accommodation and debt management.

At a time when internal audit plans at some Councils are being reduced, paused or abandoned, the assurance gained from that work, and the key recommendations demonstrate the value of internal audit. An experienced Director of Resources once said, "keep internal audit close and trust them, they are the eyes and ears of the organisation and the bellwether of good governance".

Please do contact your Internal Audit team for insight into the planned work for your organisation.



Contact details



David Hill

Chief Executive Officer
SWAP Internal Audit Services
01962 845139
david.hill@swapaudit.co.uk



Neil Pitman

Head of Partnership
Southern Audit Partnership
01962 845139
neil.pitman@hants.gov.uk



Russell Banks

Chief Internal Auditor
Orbis
01273 481447
russell.banks@eastsussex.gov.uk



Robert Hutchins

Head of Partnership
Devon Audit Partnership
01392 383000
robert.hutchins@devonaudit.gov.uk



Max Thomas

Director and Head of Internal Audit
Veritau
01904 552940
max.thomas@veritau.co.uk



Alix Wilson

Head of the South West London
Audit Partnership
020 8891 7291
alix.wilson@richmond.gov.uk



Chris Wood

Head of Assurance
Hertfordshire Shared Internal
Audit Service
01438 845513
chrisp.wood@hertfordshire.gov.uk



Richard Boneham

Head of Audit Partnership
Central Midlands Audit Partnership
01332 643280
richard.boneham@centralmidlandsaudit.co.uk

The group meets quarterly and we circulate periodic bulletins to our partner organisations with the aim of sharing information and best practice.

We hope that you find the bulletins useful. If you have any comments or feedback on this bulletin or have suggestions for future articles then please contact one of the individuals above.

