



BEIS ANNUAL REPORT & ACCOUNTS 2020/21

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ICAEW welcomes the opportunity to contribute to the **inquiry** by the Committee of Public Accounts (PAC) into the **Department for Business, Energy and Industrial Strategy's (BEIS) Annual Report & Accounts 2020/21** ("the BEIS Accounts").

Our comments primarily relate to the disclosures in the financial statements and the audit report relating to COVID-19 business support scheme grants.

Summary

- It is concerning that BEIS lacks a robust estimate of how much it has spent on COVID-19 business support grants. Eight months after the end of the financial year, BEIS still did not know how much of the £21.8bn it provided to local authorities for COVID-19 business support scheme grants had been distributed to businesses in 2020/21, or of how much had been lost to fraud. ICAEW believes the £1.038bn of fraud and error reported in the accounts could be a significant underestimate.
- The lack of a robust estimate of how much was distributed suggests that greater investment is required in internal financial reporting systems and processes to provide the timely and accurate information that BEIS needs to assess the effectiveness and value for money of its grant programmes.
- ICAEW believes there is a case for allocating greater resources to preventing and recovering amounts lost to fraud. A relatively small investment in additional resources would have the likely result of significantly larger monies recovered for the Exchequer.
- The Comptroller & Auditor General (C&AG) highlights the variable quality and timeliness of assurance provided by local authorities to BEIS, providing further evidence of the need to strengthen local authority finance teams, many of which are under significant pressure. This was not helped by the provision of guidance to local authorities after and not before the first grants were issued.
- Most business support scheme grants were accounted for by local authorities outside of their own accounts and, as a consequence, not included within the scope of local authority external audits. We recommend addressing this assurance gap by establishing a standard assurance framework for grants.

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INTRODUCTION

1. We are responding to the Public Accounts Committee's (PAC's) inquiry launched on 12 January 2022 into the BEIS Annual Report & Accounts 2020-21 (the BEIS Accounts). PAC's inquiry follows the Comptroller & Auditor General (C&AG) qualifying his regularity opinion on the BEIS Accounts because of the material levels of fraud in COVID-19 business loan scheme guarantees and COVID-19 business support grants.
2. Our comments are solely intended to support PAC with its inquiry and in its questioning of officials and others providing evidence.
3. ICAEW is a body that acts in the public interest and whose members are accountable under a code of ethics. In that context, we seek to play a constructive role in supporting the Government and Parliament in assessing value for money of Government projects, programmes and service delivery. We would welcome the opportunity to meet with members of the committee to discuss the points we have raised in more detail.
4. The fraud in the COVID-19 business loan scheme guarantees has understandably received a lot of commentary and media coverage because of the amounts involved. However, ICAEW's submission focusses on the business support grants as there are important lessons for government to learn regarding spending public money in a crisis, necessitating urgent distribution of monies and using local authorities as a partner to deliver priorities.
5. ICAEW contributed to the Fraud Advisory Panel's **evidence** to the PAC inquiry into fraud and error during the COVID-19 pandemic. This evidence sought to draw attention to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Support Grant Fund (RHLG), as it warned there was a high risk of fraud in these schemes. The Fraud Advisory Panel raised concerns that 'it will be difficult for BEIS to determine an accurate estimate of the level of fraud within the SBGF and RHLG schemes and for the National Audit Office (NAO) to audit it given that payments are handled by local authorities which will have their own post-payment assurance plans'.
6. Our response echoes many of the points we have made in other recent consultations or submissions, where we have raised concerns, in particular, about the local authority finance system:
 - ICAEW's **response** to the **technical consultation on the local audit framework** called on DLUHC to encourage and support local authorities to invest in their financial processes, governance and controls, as well as make the local audit more attractive.
 - Our **submission** to the PAC inquiry into the timeliness of local auditor reporting on local government in England stated that audit delays were a symptom of wider issues in the local government financial reporting and audit system. It called for investment in finance teams and action to make local authority accounts more understandable.
 - ICAEW's **submission** to the PAC inquiry into local government finance called for the strengthening of local authority finance teams and governance arrangements, as well as urgent action to tackle the issues in local audit and reporting. It also called for government to improve how it works with local authorities, citing the COVID-19 business support grants as an example.
 - Our **letter** to the Chief Secretary to the Treasury ahead of the 2021 Spending Review called on the government to use the review to strengthen financial capability across the public sector, as well as establish a firm financial platform that enables local government to deliver on the government's priorities.
 - ICAEW Chief Executive Michael Izza's **letter** to the Chancellor ahead of the 2021 Budget called for long-term funding for local authorities, strengthened financial management, and reforms to local audit to empower local councils to transform their areas.
 - Our **response** to the Department for Levelling Up, Housing and Communities' (DLUHC) **consultation on changes to the capital framework** stated that the issues in the

calculation of the minimum revenue provision that DLUHC were seeking to address were symptomatic of wider weaknesses in the local authority finance system.

7. We understand that a key government priority at the start of the pandemic was to distribute money to businesses quickly and when new COVID-related restrictions and related new grants were introduced, often at short notice, to protect livelihoods and jobs. The urgency of distributing monies came at a trade off against securing adequate controls against fraud. Such a situation made it essential to have rigorous post-payment procedures that deter, detect, and recover fraud. In many cases, this was absent.

DETAILED POINTS

BEIS lacks a robust estimate of how much it has spent on COVID-19 business support grants

8. The BEIS 2020-21 Accounts were published on 25 November 2021, almost eight months after the financial year end and 20 months after the first COVID-19 business support grants were introduced. The BEIS accounts report that local authorities distributed an estimated £18.9bn in 2020/21 of the £21.8bn of funding provided by BEIS for the grant schemes.
9. BEIS was only able to report on an estimate of its total expenditure on the grant schemes rather than an exact figure. This was because it had only completed 30% of the reconciliations of local authority returns to the funding it provided relating to two of the seven grant schemes. Note 1.26 to the financial statements discloses that the estimated value of these two schemes, the Closed Business Lockdown Payment (CBLP) and Local Restrictions Support Grant (LRSB), was £5.6bn.
10. BEIS acknowledge that the £1.6bn recognised for the Additional Restrictions Grant (ARG) may be an overestimate because this represents the amounts distributed to local authorities rather than the amounts that local authorities have spent. Any amounts not distributed by local authorities by 31 March 2022 will need to be returned to BEIS.
11. ICAEW would like to draw the committee's attention to the fact that the C&AG has included an emphasis of matter paragraph within the audit certificate because of the uncertainty in the estimate of the total value of these schemes and the total amount receivable by BEIS from local authorities disclosed in notes 1.26, 4.4 and 14. This means the C&AG considers the estimation uncertainty so significant that it is "fundamental to a user's understanding of the financial statements" in line with the requirements of ISA 706.

The central estimate of fraud and error of £1.038bn is likely to be an underestimate

12. The *Regularity of Expenditure* note in the Parliamentary Accountability Disclosures states that the value of irregular payments in the SBGF, RHLGF and Local Authority Discretionary Grant Fund (LADGF) is estimated to be between £514m and £1.562bn, with a central estimate of £1.038bn. Not only is this a very wide estimate because of the small sample size of 0.05% of payments upon which it is based, ICAEW believes there is a significant chance that it underestimates the level of fraud and error because:
 - The estimate does not include payments classified as "possibly eligible" by BEIS's checks.
 - As disclosed in the *Regularity of Expenditure* note, the checks "are not capable of detecting more complex fraud".
 - The checks only considered "publicly available information", which is unlikely to be all the information available to either central government or local authorities.
 - BEIS has assumed that there is no relationship between how long it has taken a local authority to submit its returns and the level of error with the sample taken from those local authorities quicker to submit returns. We question this assumption as delays to publication of local authority accounts or other final information are often indicative of under-resourced finance teams or other weaknesses in financial management.

13. Local authorities had to make payments under these three grant schemes by 30 September 2020. We believe there has been sufficient time for BEIS to collect the information it needs from local authorities and perform adequate checks to calculate a more accurate estimate of the level of fraud and error.
14. In addition, the estimate of fraud and error does not cover the remaining four grant schemes, with a total estimated value of £7.2bn, as BEIS has not begun work on assessing the level of fraud and error within them. Should the level be comparable to the three schemes it has assessed so far, we can expect non-complex fraud and error in the remaining four schemes to total between £318m and £968m.
15. ICAEW assesses that there is some merit in BEIS's expectation that the level of fraud and error in the ARG, Christmas Support Package (CSP), CBLP, and LRSG will be lower than in the first three schemes. This is because the guidance provided by BEIS to local authorities made clear that local authorities were expected to perform fraud risk assessments and conduct pre-payment checks on recipients of these grants. This contrasts with the first three schemes where the guidance on assurance, including pre-payment assurance, was only provided to local authorities in June, more than two months after they had started paying out the grants to businesses; grants which they were encouraged by ministers to distribute "as quickly as possible".
16. We welcome the **updates to the central government financial reporting requirements for 2021/22** including for enhanced reporting for fraud, error and debt in respect of COVID-19 support schemes. BEIS will need to allocate sufficient resources to meet the requirement to produce an "evidence-based estimate of the level of fraud and error". We would urge BEIS to include sufficient explanation of the work they have carried out, the steps they have taken to recover fraud and how the prior year estimate has been revised.

BEIS lacks the information it needs to make judgements about the level of resources needed for fraud recovery or where to focus those resources

17. Without a robust estimate of the level of fraud in each of the grant schemes, BEIS does not have sufficient information to assess the level of resources it should devote to recovering fraudulent or erroneous payments made under the COVID-19 business support schemes.
18. BEIS has relied primarily on local authorities to detect fraud and recover grants paid in error. BEIS believe that local authorities are "responsible and accountable for the lawful use of funds" under Section 151 of the Local Government Act 1972. Only where local authorities have been unable to recover grants paid in error are they required to refer it to BEIS, who may refer them to its debt recovery provider.
19. ICAEW believes this is insufficient. BEIS is ultimately accountable to Parliament and the public for ensuring regularity and propriety in its use of public funds regardless of the delivery model. BEIS needs to devote more resources to measuring and recovering fraud in the COVID-19 business grant schemes. It should consider establishing a specific counter-fraud team, as HMRC has done with the 1,000-strong "Taxpayer Protection Taskforce". In addition, BEIS should collect details of recipients of the grants from local authorities and consider whether it is able to publish them, subject to appropriate safeguards.
20. In addition, ICAEW believes that BEIS should strengthen its counter-fraud capacity and capability more widely, especially as grants are expected to play a key role in the delivery of the government's **Net Zero Strategy**.

ICAEW believes that the variable quality of assurance provided to BEIS is further evidence of the need to strengthen local authority financial capability

21. ICAEW believes that the high-profile financial management failures in some local authorities, have highlighted the pressing need for local authorities to strengthen their finance teams. We consider that the variable quality and timeliness of evidence provided by local authorities to BEIS is further evidence of this need.

22. Our **letter** to the Chief Secretary to the Treasury ahead of the 2021 Spending Review called for the government to invest in financial capability across the public sector, particularly in local government. We welcome the £34.5m committed in the Spending Review to strengthen “local delivery and transparency” as well as a further £45m from DLUHC to tackle audit delays. However, we remain concerned that the Spending Review did not provide local government with the necessary overall funding to make the necessary investments in finance teams, as we highlighted in our submission to the PAC inquiry into local government finance.
23. Local authority finance teams, faced with significant financial and related operational pressures, are forced to prioritise setting balanced budgets and ensure essential services are delivered. There has been limited incentive for them to devote significant resources to detecting and recovering fraud in the COVID-19 support schemes as BEIS expects. BEIS has agreed to stand behind all payments where the local authority followed the guidance, and any funds the local authority recovers will need to be returned to BEIS.
24. When the government places additional responsibilities on local government, whether through devolution of new powers or asking it to deliver grants on its behalf, it is vital that it provides sufficient additional resources to enable local authorities to administer these additional responsibilities. The business support grants represent significant additional activity for some smaller local authorities. For example, East Lindsey District Council distributed £46.5m of payments under the RHLG and SBGF schemes compared to total expenditure of £99.6m reported in its 2020-21 statement of accounts.
25. However, despite placing this significant additional responsibility on local authorities and tasking them with detecting and recovering fraud, BEIS does not appear to have provided additional resource to enable local authorities to do so. It is therefore not surprising that some local authorities have struggled to meet the reporting and assurance requirements.
26. In addition to providing sufficient short-term support to local authorities to help them recover payments lost to fraud, ICAEW believes that the government must learn lessons in order to achieve its key priorities. Local authorities will play an essential role as a delivery partner in, for example, fixing social care and ensuring the UK transitions to net zero carbon by 2050. We welcome that the recently published **White Paper on Levelling Up the United Kingdom** acknowledges the important role that local authorities will need to play in delivering the government’s 12 ambitious missions.
27. For local government to be an effective delivery partner for such significant priorities, it is essential that it has sufficient financial capability to minimise waste and prepare accurate and timely financial information to central departments.
28. In addition to providing additional funding to help local authorities strengthen their finance teams and governance arrangements, ICAEW believes central government could do more to alleviate unnecessary burdens on local authority finance teams. For example, ICAEW recommends that the government simplify the local authority budgeting rules, such as the minimum revenue provision calculation, and reduce the number of competitive funding pots that force local authorities to divert valuable resources to preparing bids. This would allow finance teams to focus on important core matters such as fraud prevention and transparent reporting.

The COVID-19 business support schemes have exposed a significant gap in the external assurance of central government grants distributed through local authorities

29. In addition to highlighting the consequences of the under-resourcing of local authority finance teams, the COVID-19 business support schemes have also highlighted a significant assurance gap that needs to be addressed.
30. The C&AG reports that local authorities were given “discretion” in how they provided assurance to BEIS and the checks “are unlikely to have been carried out in the same way by each of the 314 English local authorities”.
31. On top of patchy internal assurance, at least £16.5bn of the estimated £18.9bn grants distributed to businesses do not appear to have been subject to any external assurance. As the Fraud Advisory Panel’s **evidence** to the inquiry into fraud and error during the COVID-19

pandemic highlighted, the payments under the four schemes (CBLP, LRSG, RHLG, SBGF), where the local authorities act as agents, are outside the scope of local authority audit opinions. This is because the expenditure, for accounting purposes, sits solely within the BEIS accounts.

32. Before its abolition in 2014 the Audit Commission used to instruct local auditors to conduct grant certifications. Some Departments have established alternative arrangements for obtaining assurance that local authorities have distributed grants or benefits in line with the scheme rules. For example, the Department for Work and Pensions requires local authorities to appoint a reporting accountant to perform agreed upon procedures on housing benefit returns. However, we are not aware of BEIS requesting local authorities to appoint a reporting accountant to assure their grant returns nor of the NAO seeking to use local auditors to support its audit opinion.
33. Therefore, unless an individual local authority decided to voluntarily commission external assurance, the only external checks performed on a local authority's compliance with the guidance in distributing these grants by November 2021 were the 476 payments analysed by BEIS. This is clearly insufficient to hold individual local authorities to account because it covers only 0.05% of payments under the first three grant schemes and only covered the local authorities that were quicker in providing returns.
34. Whilst the circumstances of the pandemic were unprecedented, it is likely that the government will choose to distribute grant funding through local authorities in the future, whether to deliver priorities such as levelling up or Net Zero or urgently in response to a future crisis. Indeed, the Levelling Up White Paper acknowledges the patchwork of separate yet overlapping funds, such as the £3.6bn Towns Fund, with little if any coordination at a national departmental level. We therefore recommend that the government establishes a standard framework for assuring grants delivered through local authorities. This will ensure that local authorities understand their responsibilities and the government avoids the situation in future where over £16bn of expenditure has not been subject to external assurance.
35. ICAEW believes that a standard framework would establish clarity of the respective roles of the local authorities and the central government department in reporting grants issued as well as measures to be used to detect and prevent fraud and error. ICAEW recommends that the standard framework includes a requirement for all recipient local authorities to appoint an independent accountant to perform agreed upon procedures on their grant returns. In addition, the government should perform a detailed examination of a statistically representative sample of local authorities to create an incentive for local authorities to perform fraud-prevention procedures, as well as ensure it has the information it needs to be able to report an accurate estimate of the level of fraud and error.