

<b>Report To:</b>	<b>AUDIT COMMITTEE</b>	<b>Date:</b>	<b>29 MARCH 2021</b>
<b>Heading:</b>	<b>CORPORATE GOVERNANCE AND ANTI-FRAUD UPDATE</b>		
<b>Portfolio Holder:</b>	<b>NOT APPLICABLE</b>		
<b>Ward/s:</b>	<b>NOT APPLICABLE</b>		
<b>Key Decision:</b>	<b>NO</b>		
<b>Subject to Call-In:</b>	<b>NO</b>		

### **Purpose of Report**

Robust Corporate Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes.

The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. The Council should have in place various policies and procedures which set out its approach to preventing, detecting and investigating fraud and corruption. These policies and procedures were updated and approved by this Committee in February 2020.

The report also considers whether the Local Code of Corporate Governance requires amendment and updates the Committee in relation to the Annual Governance Statement.

The report provides an overview and update in relation to the Council's approach to Anti-Fraud activity which has also recently been reviewed in light of a new Government Functional Standards (GovS 013: Counter Fraud) and reviews anti-fraud work as part of the COVID-19 related grant payments.

### **Recommendation(s)**

**Committee is asked to note the:**

- 1. Local Code of Corporate Governance as appended to the report and that no changes are required at this time;**
- 2. Process for preparing the 2020/21 Annual Governance Statement;**
- 3. Summary updates relating to Anti-Fraud audit reviews undertaken during 2020/21.**

## **Reasons for Recommendation(s)**

It is best practice for the Local Code of Corporate Governance to be reviewed annually to inform the Governance Framework for the following year.

Fraud and Corruption are serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and Elected Members. The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the organisation. The Council is committed to creating an environment that is based on the prevention of fraud and corruption. This is achieved by promoting openness and honesty in all Council activities.

## **Alternative Options Considered**

The report is for noting.

## **Detailed Information**

### **CORPORATE GOVERNANCE**

#### **Introduction**

Robust Corporate Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes.

The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. This includes various policies and procedures which set out the Council's approach to preventing, detecting and investigating fraud and corruption. The following policies and procedures were updated and approved by this Committee in February 2020:

- Anti-Fraud and Corruption Strategy
- Anti-Bribery Policy
- Anti-Money Laundering Policy Statement and Procedures
- Fraud Response Plan
- Prosecution Policy
- Whistleblowing Policy
- Local Code of Corporate Governance

These policies will be reviewed during the course of 2021/2022 to be consider by a future meeting of this Committee.

#### **Local Code of Corporate Governance**

The Local Code of Corporate Governance sets out the Council's arrangements and is based on the guidance "Delivering Good Governance in Local Government" published by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) in 2016.

The CIPFA/SOLACE guidance identifies seven core principles and various sub principles; the recommended Local Code of Corporate Governance is based on these seven core principles. The seven principles are:

- A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes Developing the Council's capacity, including the capability of its leadership and the individuals within it
- E. Managing risks and performance through robust internal control and strong public financial management
- F. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Local Code of Corporate Governance informs the Annual Governance Statement. The Local Code of Corporate Governance is subject to annual review to inform the governance framework for the following year. The Code is attached as Appendix 1; there are no recommended changes at this time.

### **Annual Governance Statement**

The Annual Governance Statement (AGS) is prepared in order to publicly report on the extent to which the Council has complied with its Local Code of Corporate Governance. The AGS looks at how the effectiveness of the Council's governance arrangements have been monitored and evaluated during the year and looks at any planned changes.

Due to the COVID-19 Pandemic the arrangements for the preparation and publication of the AGS for 2019/20 were changed to reflect the demands placed upon Local Authorities. Instead of the AGS being finalised by the end of May 2020 and approved as part of the Statement of Accounts at the July 2020 Audit Committee, the AGS was amended and updated to reflect COVID-19 impacts and presented to the Committee on 19 October 2020.

### Proposed Process for the Preparation of the Annual Governance Statement 2020/21

The deadline for the Council to prepare the draft Statement of Accounts has again been extended in light of COVID-19 and work pressures to 31 July 2021 with the audited accounts to be signed off by Audit Committee and published by 30<sup>th</sup> September 2021. Whilst the aim is to have drafted the AGS by the end of May 2021, due to work pressures the timeframe in practice may be extended to closer to 31 July. The process below, assumes the longer timeframe will be needed.

- The initial review of the effectiveness of the Council's governance framework will be conducted by the Council's Director of Legal and Governance (Monitoring Officer) supported by the Assistant Director - Corporate Services and Transformation.
- To inform the process, the Corporate Leadership Team will carry out a Corporate Assurance Assessment and each Director will provide a Statement of Assurance.

- The Constitution review, performance reporting and risk management arrangements will also be taken into account.
- The results of all this review work will be set out in a draft Annual Governance Statement prepared by the Director of Legal and Governance (Monitoring Officer). This draft is currently being prepared.
- The Corporate Leadership Team will review the draft Statement and consider whether the improvements proposed represent an appropriate and proportionate response to any significant governance issues identified.
- The draft Governance Statement, modified to reflect the views of the Corporate Leadership Team, will be considered by a Member Working Group made up of the Council's Audit Committee.
- The Director of Legal and Governance (Monitoring Officer) will finalise the Annual Governance Statement by the end of July 2021 in readiness for the finalisation of the 2020/21 Statement of Accounts.
- The Audit Committee at its meeting in September 2021 will be asked to formally approve the Annual Governance Statement as part of the Statement of Accounts.

## **ANTI-FRAUD**

### **Overview**

Fraud and Corruption are serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and Elected Members.

The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the organisation. The Council is committed to creating an environment that is based on the prevention of fraud and corruption. This is achieved by promoting openness and honesty in all Council activities.

In order to ensure the Council takes a corporate approach to dealing with fraud and corruption, the Anti-Fraud and Corruption Strategy Group was established a few years ago and ordinarily meets on a quarterly basis. The Group consists of the Director of Legal and Governance (Monitoring Officer) and representatives from Finance, Legal, Estates, Revenues and Benefits, Housing, CMAP, Communications, Procurement and Human Resources with other officers brought on to the group as necessary. The Group develops and delivers an annual work plan. Unfortunately, due to the pressures and changed priorities for the Council caused by the COVID-19 Pandemic, particularly on the Director of Legal and Governance (Monitoring Officer) and the Service Manager, Revenues and Benefits, the Group has not met for some time and development and delivery of the work plan has been limited during the past 12 months.

During 2020/21 the main elements of anti-fraud activity being reported to the Committee are:

- a) Management of Fraud Risk - Audit Review;
- b) COVID-19 Business Grants;
- c) Data Matching for Local Restrictions Support Grants and Additional Restrictions Grants

The two Internal Audit reviews relating to COVID-19 grants were added to the work plan in light of the business support schemes introduced by the Government involving large sums of money and complex rules and criteria.

## **Management of Fraud Risk - Audit Review**

In June 2020 the Government Functional Standards (GovS 013: Counter Fraud) was published. The Council took the opportunity for Internal Audit to compare its management of fraud risk to this new standard to inform the Council's future approach and arrangements for fraud management. This report is currently being finalised in discussions with Internal Audit. The report focuses on the weaknesses in the Council's systems of control that were highlighted by this audit and recommends appropriate control improvements. The report contains a number of recommendations (largely low risk with a couple of moderate risks). Once finalised, this report will be formally reported to the Committee as part of CMAP's update report and the agreed recommendations will form the basis for the Anti-Fraud and Corruption Strategy Group's work plan for 2021/22. A number of the recommendations relate to improvements to existing policies and strategies and more clearly defined and consistent roles and responsibilities. The recommendations also suggest that the Council needs to identify sufficient specialist resources for investigating potential fraud.

This Internal Audit report and the lack of progress by the Anti-Fraud and Corruption Strategy Group in relation to the Anti-Fraud work plan during 2020/21 (due to the refocusing of efforts on the Council's response to the COVID-19 pandemic) have collectively highlighted the reliance on the Director of Legal and Governance (Monitoring Officer) to steer the programme of work and the lack of operational resilience and resources currently available to the Council. In light of this, discussions between the Chief Executive and Director of Legal and Governance (Monitoring Officer) to consider how to address this organisationally have already started.

## **COVID-19 Business Grants**

In March 2020 the Secretary of State for the Department of Business, Energy and Industrial Strategy issued instructions to local authorities to administer the payment of Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF). In May 2020 the instruction was given to Local Authorities to also administer the Discretionary Grants Fund.

Internal audit subsequently reviewed the payments and control of the administration and allocation of the first round of these grants awarded during the COVID-19 pandemic. **The report concluded that there was reasonable control assurance provided by the grant payment processes put in place; there was generally a sound system of governance, risk management and control.** This report contains 5 recommendations from Internal Audit, 3 are considered a low risk and 2 a moderate risk; another 2 minor risk issues have also been highlighted for management's consideration. 4 of the recommendations have already been implemented and the fifth will be completed shortly.

The review looked at:

- a) Pre-payment checks;
- b) Post-payment checks;
- c) Data matching to assist the Council in identifying potential fraudulent grant applications and payments.

### a) Pre-payment checks

Internal Audit considered the application processes and due diligence undertaken before payments were made. Discussions with various officers within Corporate Finance and the Revenues service

areas confirmed that prepayment checks which highlighted suspicious applications had been investigated and documented. Internal Audit reviewed documentation for the investigations that had taken place and found that detailed notes had been made about the outcomes of the investigations. Investigations involved requesting additional evidence via email, phone calls and emails with landlords or agencies, and also visiting the business premises to ensure they were trading with the correct retail status.

#### b) Post-payment checks

Internal Audit completed post payment checks on a sample of 25 Business Rates Grants and 15 Discretionary Grants verified back to original documentation stored on file. They also checked data supplied to open source data, Companies House information, held discussions with landlords, reviewed data in the NDR system and data in the creditors system. They also, where necessary, physically viewed individual business premises. For the sample selected Internal Audit recalculated the grant awarded, completed checks of bank statements to ensure bank account numbers were the same as previously paid (if applicable) and checked the bank account numbers paid were the same numbers as the ones provided in the data and bank statements. Internal Audit ensured the eligibility checks of Discretionary Grants had been completed and highlighted any areas where we had concerns to Corporate Finance.

Post payments checks highlighted 8 payments that were considered suspicious. The Council subsequently investigated all 8 payments. The Council found 3 payments were legitimate and no action was required, and 5 payments were not legitimate. Of the 5 that were not legitimate, 3 payments have been returned by the recipient on request. The remaining 2 refused to repay the grant and recovery action will be undertaken by the Council.

#### c) Data Matching

Internal Audit assisted with checking bank accounts checking to check for fraudulent accounts. The exercise highlighted 3 matches:

- 1 had already received a Business Rate Support Grant. The Council stopped the payment of the Discretionary Grant once this match was highlighted.
- The 2 other matches were payments made to a potentially fraudulent bank account. These were referred to Non-Domestic Rates officers for investigation, however, correspondence with the grant recipient showed them to be legitimate.

Internal Audit then completed a post payment data matching verification exercise on all Business Rate Support Grants paid. The data was analysed for:

- Duplicate applications with the same data across multiple fields (e.g. contact information, addresses, business names, bank account information);
- Applications for different businesses/accounts but with the same bank account information (possible sign of a fraudulent bank account being used across multiple businesses);
- Applications with bank account information which matches to known frauds detailed newsletters.

This data matching identified 181 payments which had 2 or more payments to the same account which meant there were 79 matches. Internal Audit investigated every match and confirmed that the bank account matches had reasonable explanations; for example, the same business having 2 or more premises within the District.

## Data Matching for Local Restrictions Support Grants and Additional Restrictions Grants

The Council commenced payment of the second tranche of Local Restrictions Support Grants (LRSG) and the Additional Restrictions Grants (ARG) on 19 November 2020 and continued until 13 January 2021. Internal Audit were asked to complete a data matching exercise for every proposed payment for the LRSGs and ARGs.

The exercise involved analysing data for:

- Duplicate applications with the same data across multiple fields (e.g. contact information, addresses, business names, bank account information).
- Applications for different businesses/accounts but with the same bank account information (possible sign of a fraudulent bank account being used across multiple businesses).
- Applications with bank account information which matches to known frauds.

Internal Audit examined 773 grants with a total value of around £2.4m. Data matching highlighted 33 proposed grants where the bank account was documented more than once. Every match was investigated and confirmed that the bank account matches had reasonable explanations; for example, the same business having 2 or more premises within the District.

Data matching also highlighted 2 cases which were referred back to Council Officers to investigate and take action:

- 1 case where the Company Registration Number (CRN) was typed incorrectly, this number was adjusted before payment.
- 1 case which was pulled from payment to allow Corporate Finance to check the legitimacy of the payment. The payment was confirmed to be valid.

## Grants Summary

To put the Internal Audit reviews and data matching exercises relating to COVID-19 grants into context, the table below sets out the number of grants paid out to date and their values:

Type of Grant	Number of Grants Paid	Value of Grants Paid (£)
Small Business Grants	1396	13,960,000
Retail, Hospitality and Leisure Grant Fund	250	4,480,000
Discretionary Grants	101	845,637
Additional Restrictions Grants	1623	3,222,000
Local Restrictions Support Grants	3880	6,981,318
<b>TOTALS</b>	<b>7250</b>	<b>29,488,955</b>

The 2 reviews and data matching exercises regarding COVID-19 grants demonstrates the Council had strong due diligence in place when processing applications and making payments but also enabled identification and checking of the very small number of potential fraudulent claims. The data matching has enabled 3 claims which were not legitimate to be recovered and 2 further payments continue to be chased for recovery.

As can be seen, the number of potential fraudulent claims identified was remarkably low compared to the number of applications processed and the financial amounts at play and should assure the Committee of the robustness of the Council’s due diligence processes which will continue to be in place for ongoing and future COVID-19 payments.

**Implications**

**Corporate Plan:**

The aim of the Council is to ensure that we continue to remain financially sustainable, whilst at the same time ensuring that we continue to provide the key services on which our residents and businesses rely. It is important that the Council has the most effective infrastructure and support to enable:

- The delivery of the Corporate Plan
- Financial sustainability to continue to deliver key services
- A productive workforce that delivers services well

**Legal:**

The Council’s Local Code of Corporate Governance is based on the CIPFA/SOLACE guidance as set out in the report.

The Council is required by law to undertake an annual review of the effectiveness of its systems of control and produce an annual governance statement – Regulation 6 of the Accounts and Audit Regulations 2015.

**Finance:**

<b>Budget Area</b>	<b>Implication</b>
General Fund – Revenue Budget	There is a budget of £10k which is specifically for the purpose of funding costs associated with fraud which falls to the Monitoring Officer to release and monitor.
General Fund – Capital Programme	As above
Housing Revenue Account – Revenue Budget	As above
Housing Revenue Account – Capital Programme	As above

**Risk:**

<b>Risk</b>	<b>Mitigation</b>
<u>Local Code of Corporate</u>	



<p>Failure to review the Local Code of Corporate Governance would mean the governance framework is not complied with and would impact on the annual governance statement process.</p>	<p>The review ensures compliance with the governance framework and assists with the annual governance review.</p>
<p><u>Anti-Fraud</u></p> <p>Failure to have in place adequate anti-fraud policies and processes could lead to serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and Elected Members.</p>	<p>The implementation of the recommendations of the recent audit as set out above will ensure the Council's policies and procedures are improved in line with the recent Government Functional Standard.</p>
<p>Failure to put in place adequate due diligence and post payment checks for fraudulent Business Grant payments could cause fraudulent payments to be made in the first place and then prevent such payment from being recovered.</p>	<p>The Internal Audit reviews and data matching checks firstly demonstrated the Council had strong due diligence in place and secondly, enable identification and checking of potential fraudulent claims. The data matching has enabled 3 potentially fraudulent claims to be recovered and 2 further payments are being chased for recovery.</p>

**Human Resources:**

There are no Human Resource issues identified in the report.

**Environmental/Sustainability**

There are no Environmental/Sustainability issues identified in the report.

**Equalities:**

There are no Equalities issues identified in the report.

**Other Implications:**

None.

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