



## BEIS ANNUAL REPORT AND ACCOUNTS 2021/22

Issued 25 November 2022

ICAEW welcomes the opportunity to submit evidence to the House of Commons' Public Accounts Committee (PAC) inquiry on the [Department for Business, Energy and Industrial Strategy \(BEIS\) annual report and accounts 2021/22](#), a copy of which is available from this [link](#).

In line with our [submission](#) to the PAC inquiry on the BEIS annual report and accounts 2020/21, our comments primarily relate to the disclosures in the financial statements and the audit report relating to COVID-19 business support scheme grants.

- ICAEW concurs with the Comptroller and Auditor General (C&AG) that “robust and timely measurement of fraud is key to developing a cost-effective control environment.”
- Under-investment in fraud measurement and recovery has resulted in only 0.4% of irregular payments being recovered. Greater investment would result in a net benefit for the Exchequer.
- As BEIS transitions to a delivery department from a policy department, it is essential that it invests in strengthening its internal controls, risk management and fraud prevention to minimise losses due to fraud and error.
- It is disappointing that the Government has not fully addressed some of the key recommendations PAC made in its report on the BEIS annual report and accounts 2020/21. BEIS still has not set out in detail how it will reduce taxpayer exposure to losses.
- It is vital that the Government learns the key lessons from the COVID-19 grant schemes, including the need to strengthen local authority finance teams and assurance ahead of introducing new schemes that involve local authorities distributing support to businesses or individuals to meet rising energy costs.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 165,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.

This response has been prepared by ICAEW's Public Sector team within the Reputation & Influence Department. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 10,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this submission please contact our Public Sector team at [representations@icaew.com](mailto:representations@icaew.com) quoting REP 95/22.

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**DETAILED POINTS****Timely and robust measurement and reporting of fraud is essential**

1. ICAEW agrees with the Comptroller and Auditor General (C&AG) that “robust and timely measurement of fraud is key to developing a cost-effective control environment.”
2. We welcome that BEIS has increased their sample size of payments in their first three COVID-19 business support schemes from 476, which we described as clearly insufficient in our submission on the 2020/21 annual report, to 4,476. We are pleased that this has resulted in the Department being able to revise down its estimate of fraud and error in these schemes to £985m from £1,038m.
3. The initial estimate of £1,038m was based on checks that were, in the words of the 2020/21 annual report, “not capable of detecting more complex fraud”. There was also a questionable assumption that there was no relationship between how long it took for a local authority to submit returns and the level of error in the sample. The 2021/22 annual report is silent on whether these issues have been addressed.
4. The lower level of fraud detected in the later schemes reflects the improvements the Government made to require local authorities to conduct a fraud risk assessment and pre-payment assurance checks.
5. However, we are disappointed that more than 18 months after the 2020/21 year end, the Government had not completed its assurance exercise for these later grant schemes.
6. Without a timely estimate of the level of fraud in these schemes, the Government has lacked the information it needs to assess how much resources it should allocate to recovering fraudulent and erroneous grant payments.

**Increased investment in the recovery of erroneous grant payments would generate net benefits**

7. We believe that greater investment in the recovery of fraudulent COVID-19 grant payments would result in a net benefit to the Exchequer. The Government has only been able to recover 0.4% of the estimated value of fraudulent or erroneous grant payments.
8. The C&AG’s report on the accounts rightly states that “the longer the department takes to start the recovery process, the lower the likelihood of successful recovery and potentially the greater the losses to the public purse”. However, BEIS has delayed wider recovery efforts until its assurance exercises are complete.
9. Given that BEIS has completed its assurance exercises on the three earliest grant schemes which have the highest level of estimated fraud, we do not understand why BEIS “is yet to apply its findings to the rest of the population of payments to help local authorities identify those non-sample tested payments with a higher risk of being irregular.” We are concerned this may reflect a lack of capacity in the relevant BEIS counter-fraud team.
10. The Accountability Report states that BEIS has partnered with the National Investigation Service (NATIS) since September 2020 to “supplement their capacity to investigate the most serious cases of fraud”. NATIS is run on a reported annual budget of £6m<sup>1</sup> with which it has to:
  - a. Investigate and recover fraud in the COVID-19 grant schemes;
  - b. Investigate and recover fraud in the Bounce Bank Loans Scheme; and
  - c. Carry on its pre-COVID functions.
11. The BEIS annual report states that NATIS made 32 arrests and launched 19 investigations relating to COVID-19 grant schemes. This compares to more than 10 million grant payments

<sup>1</sup> [Thousands of small firms go bust owing millions in bounce back Covid loans - BBC News](#)

under the first three schemes and an estimated level of fraud and error of 8.4%. This suggests that BEIS cannot rely solely on NATIS to successfully investigate and recover fraud of a scale committed against BEIS's COVID-19 grant and loans schemes.

12. The government pledged £24.8m of additional funding over three years for NATIS and “enhancing counter-fraud work at the British Business Bank in the 2022 Spring Statement. By comparison, the Department for Work and Pensions (DWP) [annual report and accounts 2021/22](#) reported planned spending of £1.4bn over the same period on tackling fraud and error in the benefits system.

### **BEIS needs to strengthen its operational capability as it transitions from a policy to a delivery department**

13. The Governance Statement reports that the Government Internal Audit Agency (GIAA) have rightly highlighted that BEIS is increasingly moving from a policy department to a delivery department. We agree with GIAA that this “has resulted in a tension between operationalising promptly new schemes, grants and loans and putting in place robust processes and controls to mitigate the risk of loss through fraud and error.”
14. The Governance Statement does not set out how BEIS intends to strengthen its capacity and capability as it transitions to a delivery department. The real term cuts in BEIS' resource budget announced in the Autumn Statement could result in further pressure on back-office functions essential for ensuring value for money in public spending and preventing losses due to fraud.
15. ICAEW believes that it is vital that BEIS invests in strengthening its processes, risk management, internal controls, financial reporting and fraud prevention to avoid a repeat of the levels of fraud and error seen in the COVID-19 grant and loan schemes. Such an investment would save BEIS money in the longer-term.

### **The Government has not fully addressed PAC's recommendations**

16. We agree with the recommendations made by PAC in its report on the BEIS 2020/21 accounts and welcome that the Government has accepted them. However, we are disappointed that BEIS has not fully addressed PAC's first recommendation to set out how it will reduce taxpayer exposure to losses through fraud and error nor the second recommendation to set out how it will obtain “full co-operation from local authorities” to support recovery efforts.
17. BEIS maintains that “local authorities must take all reasonable and practicable steps to recover all irregular grant payments.” However, it has still not provided any additional support to local authorities to identify and recover fraudulent payments. Many local authority finance teams are under significant pressure and facing competing priorities. As BEIS has agreed to stand behind all payments where the local authority has followed the guidance, there is little incentive for local authorities to devote scarce resource to the recovery of fraud or error in COVID-19 grant schemes.
18. PAC also recommended that BEIS explains how it is going to recover fraudulent or erroneous grants or loan claims. In its response, BEIS insists that the primary responsibility for recovery of erroneous or fraudulent COVID-19 grant payments rests with local authorities, while the recovery of fraud in the COVID-19 loan schemes rests with lenders. However, both local authorities and lenders are acting as agents of BEIS for expenditure and loans reported in BEIS' accounts. Under Managing Public Money, Accounting Officers are “personally responsible for the resources of their own organisation” even when working with other organisations.

## The Government does not appear to have learnt key wider lessons

19. The Government's response to PAC highlights some valuable lessons learnt including the importance of pre-payment assurance. However, there are two further lessons that we believe the government should learn from the COVID-19 grant schemes:
  - Central government departments should improve how they work with local authorities including by involving them in the design of schemes that they are expected to deliver; and
  - There is a need to fill the gap in external assurance of government grants distributed through local authorities.
20. According to the Fraud Advisory Panel's report on fraud during COVID-19 [Running on Empty](#), many local authorities flagged the need to carry out pre-payment fraud checks on COVID-19 business support grants but were overruled by the government that wanted to prioritise speed of delivery. Guidance on assurance, including pre-payment assurance, was not provided to local authorities until June 2020, more than two months after local authorities had started paying out the grants.
21. We see little evidence that the Government has improved how it works with local authorities. For example, local authorities were provided only twelve days to submit expressions of interest in their area becoming an Investment Zone. However, the Autumn Statement included an announcement that "existing expressions of interest will not be taken forward" as the programme will be "refocused".
22. Our evidence to the inquiry on the BEIS 2020/21 accounts highlighted a significant gap in external assurance over grants distributed through local authorities. Local authority auditors do not provide an opinion on regularity because local authorities are accountable to local voters rather than to Parliament, whilst the NAO does not audit transactions processed by local authorities. The only way that a government department obtains independent assurance that the grant monies have been spent in line with the scheme rules and, by extension, the intentions of Parliament is through carrying out or commissioning additional assurance checks.
23. However, there is an inconsistent approach across Government. ICAEW reiterates the calls we made in our submission to the inquiry on the 2020/21 accounts for the Government to establish a proportionate standard framework for assuring grants delivered through local authorities. We believe such a framework would improve consistency, act as a powerful incentive for local authorities to strengthen their fraud prevention procedures and identify local authorities in need of additional central government support.
24. We believe it is essential that this assurance gap and the issue of how central government works with local government are addressed as a matter of urgency. The Energy Prices Act 2022 grants powers to the Secretary of State to make provision through regulations for designated bodies, including local authorities, to distribute support to meet rising energy costs. If the Government does not learn the right lessons from the COVID-19 grant schemes, there is a significant risk that the taxpayer will again absorb significant losses due to fraud or error and, additionally, that support may not reach the intended recipients.
25. Another key lesson from the Government's response to the COVID-19 pandemic is the importance of investment in public sector finance and commercial teams.
26. For local authorities to act as an effective delivery partner for key Government priorities, including protecting the most vulnerable from rising energy prices, it is vital that their finance and commercial teams are sufficiently resourced to spend public money efficiently and prepare accurate and timely financial reports on their spending. ICAEW believes that the under-resourcing of local authority finance teams has been a major contributory factor in the

delays to local audit and in several high-profile financial management failures in local government.