

DEPARTMENT OF FINANCE 20-21 RESOURCE ACCOUNTS

Report of the Comptroller and Auditor General to the Northern Ireland Assembly

Introduction

In 2020-21, the Department of Finance (DoF/ the department) took responsibility for the implementation of a series of business grant schemes designed to provide support to businesses subject to closure or restrictions arising from the COVID-19 pandemic. The four main schemes were:

- Localised Restrictions Support Scheme (LRSS) (total expenditure in 2020-21 £245.71 million);
- Large Business scheme (£30.15 million);
- Medium Industrial Business scheme (£21.5 million); and
- Business Top-Up grants (£78.5 million).

The LRSS scheme was launched in October 2020 following the imposition of business restrictions initially in the Derry and Strabane District Council area and subsequently throughout Northern Ireland. This was an NI Executive initiative to provide ongoing grant funding to businesses directly impacted by the Health Regulations which imposed restrictions or closure on certain types of business. The total LRSS grant expenditure in 2020-21 was £245.71 million. The scheme ended in May 2021.

The rates provided by the scheme were:

- £800 per week for businesses in properties with a Net Annual Value of £15,000 or less;
- £1,200 per week for medium sized businesses in properties with a Net Annual Value between £15,001 and £51,000; and
- £1,600 per week for businesses in properties with a Net Annual Value of £51,001 or more.

The DoF Accounting Officer (AO) raised concerns that these amounts were considerably greater than those available in other regions in similar lockdowns and advised that value for money for these amounts could not be justified. A Ministerial Direction was therefore requested for the scheme because of these concerns and was provided on 18 October 2020.

The remaining three schemes, the Additional Financial Assistance Schemes (AFAS), were introduced in March 2021 when the Department announced further grant schemes for businesses negatively impacted during the pandemic. These comprise the Large Business, Industrial Business and the Business Support Top-Up schemes. Total grants payable to businesses amounted to £130.16 million for 2020-21.

Similar to LRSS, the DoF AO sought a Ministerial Direction for these schemes on the basis that the Department had been unable to perform a value for money assessment, and that there were concerns in respect of making automatic payments to businesses. Furthermore, the Department acknowledged that some businesses will receive funding they do not need and some recipients will fail regardless of financial assistance. This Ministerial Direction was issued on 30 March 2021.

The nature of these schemes was unprecedented and the Department had to implement them at pace to ensure support reached businesses as quickly as possible. Land and Property Service is a Directorate within DoF and had responsibility for processing payments made under these schemes. This undoubtedly presented significant challenges for both the Department and LPS. While LPS has

an established platform for the receipt of business rates, the system is not designed for the purpose of making grant payments.

During the audit of the 2020-21 annual report and accounts I conducted testing on each of these four schemes. My audit opinion is qualified on three matters as outlined below.

1. Regularity qualification as a result of ineligible payments made under the LRSS scheme

LPS has put in place arrangements for conducting post-payment checks on grants paid under the LRSS scheme. As a result of checks undertaken, the Department has identified £6.08 million that was incorrectly paid. A total of £1.56 million has been recouped i.e. £0.6 million has been repaid and £0.96 million has been recovered through offsetting amounts to which the applicant was entitled from other grant schemes, including schemes administered by other NI departments. £4.52 million remains outstanding although the Department has provided for £1.92 million of this as doubtful debt. The DoF AO notified the NI Assembly's Public Accounts and Finance Committees of the errors identified.

The Department told me they recognised the risks arising from the administration of COVID grants at an early stage and therefore, in accordance with the guidance on managing fraud risks in COVID funding schemes, which I published in August 2020, it conducted an extensive reassessment of every approved application to ensure that the relevant businesses had been paid correctly. The post-payment checking identified errors such as:

- duplicate payments to the same business,
- payments to business types not eligible for LRSS support or not operating from a commercial premises, and
- payments to businesses that had ceased trading during the restriction period, or which had not been open and trading at the start of the restriction period.

During my audit I identified a further three errors. Two errors arose where businesses had made applications for separate premises although they only occupied one of these. The businesses had submitted multiple applications using different Property IDs however they should only have been approved for a single application each. The other error related to a business that received LRSS however they were an online-only retailer and not subject to restrictions and therefore were ineligible.

I estimate that the total overpayment in LRSS is £8.73 million, of which £4.21m relates to an estimated error from the audit testing and overpayments of £4.52m identified by the Department. These overpayments are irregular as the expenditure has not been applied to the purposes intended by the Assembly. I have therefore qualified my regularity opinion on the LRSS expenditure.

2. Limitation of scope qualification as a result of multiple grants paid to business under the AFAS

The legislation for the March 2021 schemes included eligibility criteria which prevented businesses from receiving payments for multiple premises. The rationale behind this approach was to stop businesses from creating dummy companies to avail of additional grant payments. Whilst LPS carried out checks on businesses, it has subsequently recognised that these checks were not sufficient to

meet the stringent requirements of the legislation. For example, two separate businesses owned by the same person and operating in separate premises received two grants but should only have received a single grant in accordance with the legislation. The department has acknowledged that errors have been made in this respect, however the amount paid out to businesses in contravention of the legislation cannot be readily determined.

The Department told me that, when drafting the legislation, it adapted an existing provision from the Small Business Rates Relief Scheme regarding multiple premises to help prevent abuse or fraud of the scheme and believed that the legislation as drafted reflected the Executive's intentions for the schemes.

To deliver the scheme as intended by the Executive, LPS then applied a pragmatic approach to identifying 'multiple' businesses, classifying companies incorporated as distinct legal entities as separate businesses. After payments had been made, LPS became aware that the adapted provision unintentionally excluded some businesses from eligibility contrary to the Executive's intentions and that those payments had been made *ultra vires*.

The department said that it is considering the options for regularising those *ultra vires* payments, including retrospective amendment of the legislation to bring it into line with the policy intent or accepting a degree of irregular payments which are in line with Executive policy.

I have therefore qualified the accounts on the basis of a limitation of scope as I have been unable to obtain sufficient appropriate evidence to determine whether the expenditure on these schemes is free from material misstatement and irregularity.

3. True and fair view qualification regarding the mis-classification of potential year end commitments relating to the COVID Business Grant Schemes

DoF has accrued £139.48 million of grant expenditure in the 2020-21 accounts. I have reviewed this accrual and consider that £47.7 million should have been recorded as a provision as it relates to applications for grant funding which were assessed after 31 March 2021. As this amount is material to the accounts and remains unadjusted I have qualified my true and fair opinion in this regard.

By applying this accounting treatment DoF was able to utilise funds in the current financial year that would otherwise have been redistributed to other departments or returned to the Treasury. Disclosing items as accruals which should properly have been treated as provisions has the effect of securing funds from existing budgets for future payments. This treatment is not in line with International Accounting Standards nor with budgetary guidance.

Conclusion

In qualifying the DoF accounts, I have given due consideration to the unprecedented and challenging circumstances faced by the Department in delivering the various grant schemes. DoF is not normally a grant paying organisation and I recognise the difficulties faced by LPS staff in making payments during the COVID-19 pandemic.

DoF has confirmed it is currently in the process of developing a lessons learned report covering the various business grant schemes. I welcome this work and I will monitor how the Department addresses the issues raised in this report. I will also review the remainder of the grant payments as part of my audit of 2021-22 accounts at which point I may report further.

Kieran J Donnelly

*KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
1 Bradford Court
Galwally
BELFAST
BT8 6RB*

28 October 2021