

To All Chief Executives

10 January 2025

Copied to: Directors of Finance; External auditors

Dear Chief Executive,

You may be aware that, on 12 December, the Accounts Commission considered a report from the Controller of Audit (under powers in s102 (1) of the Local Government (Scotland) Act 1973) in relation to a significant council tax refund fraud perpetrated against Aberdeen City Council. In her remarks to the Commission, the Controller made the point that this case should act as a “cautionary tale”. In response, the Commission decided that, in addition to publishing findings (which can be found [here](#)), it would be important to share with all Chief Executives, copying in relevant local government professional networks, the lessons the sector as a whole can learn from Aberdeen City’s experience.

As finances get tighter and decisions are taken to rationalise back-office functions to protect front line services for our communities, it is critical that your staff across all functions have and implement effective financial controls, which safeguard public assets, irrespective of the level of income and expenditure involved.

While this particular fraud was complex, weaknesses in the council's internal controls allowed the fraud to continue over a prolonged period. Controls exist to safeguard both the employees and the employer. In this case, failure to implement controls and a lack of monitoring enabled an abuse of authority which, when combined with a detailed operational knowledge, provided the opportunity to withdraw funds inappropriately.

This should serve as a timely reminder for all councils to consider whether the following fundamental internal controls are operating effectively:

- **segregation of duties:** ensuring access to systems are restricted to appropriate levels (to negate the possibility of individuals processing transactions all the way through the payments process).
- **reconciliations:** ensuring feeder systems are effectively reconciled to other systems (e.g. general ledger); using third party information (suppliers’ statements) and reconciling with payment systems.
- **system documentation:** system documentation should be maintained which details key controls to be carried out by staff to prevent fraud or error.
- **monitoring:** scrutiny monitoring should be at a level that would allow managers to identify anomalous payments at an early stage.
- **counter-fraud arrangements:** refresh and promote the counter-fraud policy with staff.

It is your responsibility to ensure that such arrangements are in place to help assure elected members and the public that risks are being identified and managed effectively. I would encourage you all to use the annual governance statement as an opportunity to take stock of the key controls and processes and whether self-assessment procedures are sufficient to provide elected members and officers with the required assurances. Internal and external auditors have an important role to play in helping public bodies assess their control environment and evaluating the effectiveness of controls, but they are not responsible for identifying all instances of fraud.

If you have any questions or queries in relation to the report on the Aberdeen City Council case specifically or on any other aspect of the Commission's work, please do not hesitate to email acsupport@audit-scotland.gov.uk

I look forward to engaging with you during 2025.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Jo Armstrong', written in a light grey or blue ink.

Jo Armstrong
Chair, Accounts Commission