

The 2023/24 audit of Aberdeen City Council

Council tax refunds - a significant fraud

ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
December 2024

Contents

Introduction	3
Timeline of key events	4
Council tax – accounts in credit	6
Strengthening the council's internal controls	10
The council's response to taxpayers	15
Conclusions	16

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

- 1.** The Code of Audit Practice requires auditors to produce an Annual Audit Report (AAR) summarising the significant matters arising from their audit work. For local authorities, auditors address the AAR to elected members and the Controller of Audit.
- 2.** I have reviewed the 2023/24 AAR for Aberdeen City Council (the council) from the appointed auditor, Michael Oliphant (Audit Services Group, Audit Scotland). The auditor's AAR was considered by the council's Audit, Risk and Scrutiny Committee on 27 June 2024. The auditor issued an unmodified opinion on the council's 2023/24 annual accounts.
- 3.** The auditor reported on a significant fraud identified by the council in September 2023. A former employee had diverted fraudulent payments totalling £1.109 million to his own bank accounts over a period of 17 years. Having plead guilty to criminal charges of embezzlement, the perpetrator received a four-year prison sentence at the High Court in Edinburgh in July 2024.
- 4.** I have decided to use the reporting powers available to me under s102 (1) of the Local Government (Scotland) Act 1973 to bring this issue, and the council's response, to the Commission's attention.

Background

- 5.** The perpetrator identified council tax accounts with historic credit balances and used their unsupervised authority to issue council tax refunds of up to £3,000, to divert refunds to themselves, often on a weekly basis.
- 6.** There was no major impact on the financial statements during this period, covering financial years 2006/07 to 2023/24 and the payments did not represent a material misstatement in any given year. There was no impact on the council's budget as the amounts were taken from balances held by the council on behalf of taxpayers who had made overpayments on their council tax accounts. Nevertheless, the funds were held for safekeeping by the council who will need to manage any associated reputational risk and ensure credit balances are restored. The council has reached agreement with the perpetrator to recover funds. In addition, a claim to the council's insurers is currently under negotiation but is expected to cover the remainder of the loss.
- 7.** There were failures in controls within the council that allowed this fraud to continue over a prolonged period. In particular, a lack of segregation of duties and monitoring in relation to council tax refunds allowed the perpetrator to transfer balances between council tax accounts, input bank account details and process refunds without any further checking of processing.

Timeline of key events

Date	Event
1 November 2006 – 6 September 2023	Perpetrator processed 655 payments to himself totalling £1.109 million.
12 September 2023	Staff member identified and investigated an irregular transaction on a council tax account and raised the entry with the perpetrator. The perpetrator subsequently repaid the queried amount into the council tax standing order bank account.
13 September 2023	The perpetrator contacted staff member to discuss irregular transaction but staff member was not convinced by the explanation offered.
14 September 2023	The perpetrator reversed all entries relating to the last embezzlement transaction.
14 September 2023	Staff member investigated further and raised with Council Tax and Recovery Manager. Senior revenues staff and the council's counter-fraud team advised.
15 September 2023	The perpetrator was suspended (under a precautionary suspension) and all access to buildings and computer systems was disabled.
21 September 2023	Counter-fraud team contacted Police Scotland following initial investigation.
21/22 September 2023	Chief Officer – Finance advised members of the Corporate Management Team, Internal and External Audit. Director advised Councillor Malik (Audit, Risk and Scrutiny Committee Convener) and Councillor McLellan (Finance and Resources Committee Convener).
September/ October 2023	Chief Officer – Finance undertook review of systems and processes. Improvement plan produced.
26 November 2023	The perpetrator was arrested and charged by Police Scotland.
12 December 2023	A formal disciplinary meeting was held and the accused was dismissed.
21 December 2023	All elected members advised of the matter and the upcoming court appearance.
12 February 2024	Report to Audit, Risk and Scrutiny Committee.
17 April 2024	Follow up report to Full Council.
June 2024	The High Court in Edinburgh found perpetrator guilty of embezzlement of £1.109 million from the council. He was later jailed for four years.

Date	Event
July/September 2024	Internal Audit requested to review the implementation of the service's improvement plan. A review was undertaken and reported to management in September 2024.

Council tax – accounts in credit

8. The council administers the council tax database which includes approximately 124,500 properties and raises annual income in excess of £100 million ([Exhibit 1](#)). The database requires to be regularly updated for changes in taxpayers' circumstances such as changes in address or other household details. The council offers taxpayers a number of payment options although direct debit is the most popular.

9. Unpaid income is collectable for all prior years and the council pursues outstanding debts for all years until they are either paid or identified as uncollectable. Over the last 17 years, approximately £2 billion of council tax income was administered and collected.

Exhibit 1

Council Tax credit balances as a percentage of Council Tax

Year	Council Tax billed (net of discounts) £000	Credit balances at year end £000	Credits as a percentage of Council Tax billed
2023/24	139,111	366	0.26%
2022/23	130,850	441	0.34%
2021/22	126,185	482	0.38%
2020/21	123,777	454	0.37%
2019/20	120,282	281	0.23%
2018/19	113,871	376	0.33%

Source: Aberdeen City Council Audited Accounts and Council Tax Reports

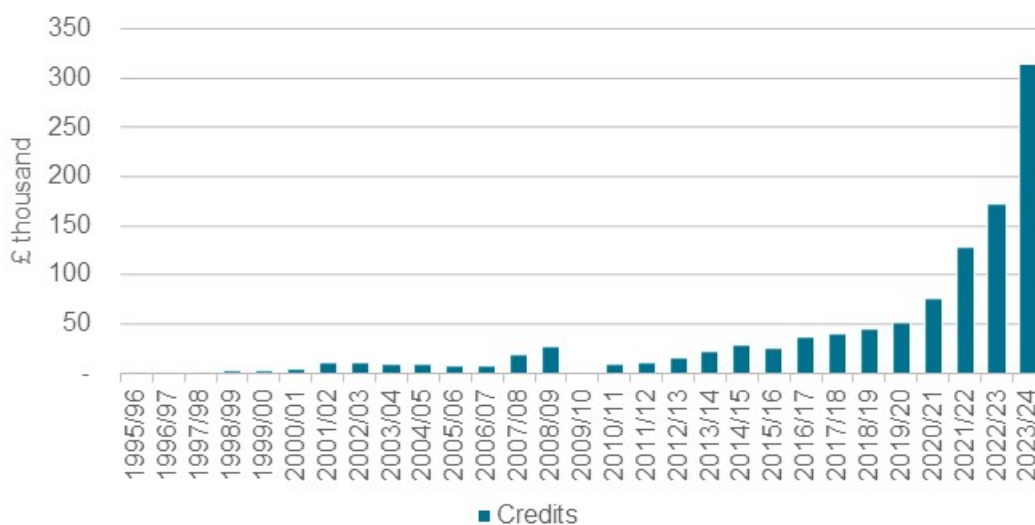
10. At 31 March 2024, the cumulative value of accounts in credit covering all council tax years was £1.2 million. This comprised 6,600 accounts of which 95 per cent had balances less than £500. [Exhibit 1](#) also gives an indication of the relatively small scale of council tax credit balances when compared with the amount of council tax billed each year. In general, the balances on these accounts are less than 0.5 per cent of billing totals. For example, with reference to financial year 2021/22, council tax billed amounted to £126.185 million while accounts in credit for that financial year were £482,000 at 31 March 2022.

11. There is no single reason for an account to be overpaid (in credit) but many will arise from a change in address where the taxpayer has not provided a forwarding address. When a taxpayer changes address within

the city area, any credit balance is transferred to the new council tax account. If the move is outwith the city, a refund is required. Prior to 2006, this was dependent on taxpayers getting in touch to request a refund. As most amounts are small, this generally did not happen. In 2006, the council introduced a policy to automatically refund paying bank accounts for any overpayments which had arisen by direct debit. [Exhibit 2](#) shows the age of the historical balances held by the council at 31 March 2024 on behalf of taxpayers.

Exhibit 2

Age of credit balances at 31 March 2024



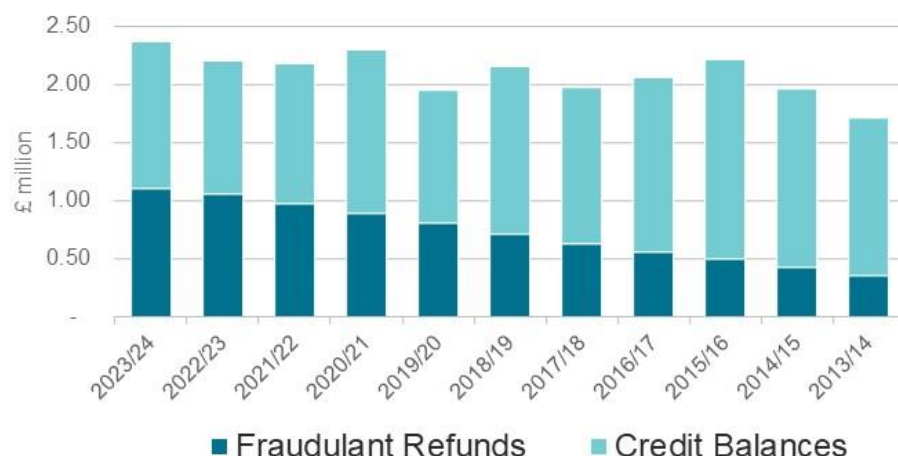
Source: Aberdeen City Council Reports

12. Where bank details are not held or an address is not known, the council sends a letter to the property address to enable a letter to be forwarded should a mail redirection be in place. There is no time limit for a taxpayer to make contact and seek a refund.

Scale of embezzlement

13. A total of 655 payments amounting to £1.109 million and involving an estimated 5,700 council tax accounts were made to the embezzler's bank accounts over a 17-year period between November 2006 and September 2023.

14. The total value of the accounts in credit at 31 March 2024 was approximately £1.2 million. Had funds not been withdrawn inappropriately, the level of balances would be £2.4 million. [Exhibit 3](#) shows the combined total of the balances on the accounts in credit for recent years with the amounts embezzled.

Exhibit 3**Cumulative fraud and credit balances**

Source: Aberdeen City Council Reports

15. Exhibit 4 provides details of the fraudulent refunds made including the total and average values and the number of refunds on an annual basis.

Exhibit 4**Council tax fraudulent payments – number and value by financial year**

Year	Value of fraudulent refunds per year (£)	Number of refunds	Average Value (£)
2023/24	46,921	16	2,932
2022/23	82,836	29	2,856
2021/22	90,307	31	2,913
2020/21	74,368	26	2,860
2019/20	94,835	36	2,634
2018/19	87,166	33	2,641
2017/18	69,809	26	2,685
2016/17	62,331	25	2,493
2015/16	67,659	31	2,182
2014/15	78,970	38	2,078
2013/14	67,306	38	1,771
2012/13	55,114	40	1,378
2011/12	56,602	46	1,230
2010/11	46,925	57	823
2009/10	32,878	44	747
2008/09	45,499	75	607
2007/08	41,335	53	780
2006/07	8,413	11	765
TOTAL	1,109,274	655	

Source: Aberdeen City Council Reports

16. The perpetrator, as a team leader, had authority to process refunds for amounts between £500 and £3,000. Accounts in credit are mainly smaller amounts and therefore the perpetrator needed to collate a number of balances together in a single council tax account to produce a total amount in the range he could authorise which were then processed as a refund to his own bank account.

17. Identification of the embezzlement was the result of an officer routinely checking arrears recovery reports with the council tax computer system. Multiple transfers were noticed on an account in credit and not being satisfied with the explanation received from the perpetrator, as team leader, the officer referred the matter to a more senior officer. The perpetrator was promptly suspended thereafter and investigations commenced.

Strengthening the council's internal controls

Council tax refunds

18. The perpetrator was a team leader in the council tax team which forms part of People and Citizens services within the Corporate Services Directorate. While the service and job titles have been restructured on several occasions over the years, the individual held this, or similar roles, within council tax administration since 1988. Key responsibilities included:

- supervising council tax and recovery administration
- ensuring documentation is accurate and issued on time
- contacting customers by means of writing, telephone and visits
- undertaking quality checks on council tax and recovery administration
- recording performance and producing reports.

19. As part of the team leader role, the individual could authorise refunds of between £500 and £3,000. There were controls in place (as described in [Exhibit 5](#)) which required team leaders to involve another team leader in checking and processing refunds to ensure adequate segregation of duties. While the procedures existed, there were no checks to ensure they were adhered to. It was therefore possible for the perpetrator to process refunds without anyone else being involved. Failure to implement controls enabled an abuse of authority which when combined with a detailed knowledge of council tax administration, obtained over many years of employment, provided the opportunity to withdraw funds inappropriately.

20. Given the number of accounts affected and the number of transfers between accounts for each fraudulent payment, the perpetrator required a degree of planning and fore thought to select council tax accounts, process transfers between accounts and make payments.

Exhibit 5

Council's existing controls for processing refunds

Level	Processing
Tier 1 - Refunds up to £500	Council Tax team members have the authority to input bank details and process refunds to customers.
Tier 2 - Refunds between £500 and £3,000	<p>Council Tax Team Leaders, to carry out their role, have the authority and system access to input bank details and process refunds to customers without any scrutiny.</p> <p>Council Tax team members pass the refund to a Team Leader for checking and processing by the Team Leader on Capita One Revenues & Benefits.</p> <p>Refunds created by Council Tax Team Leaders must be passed directly to another Team Leader for checking and processing.</p>
Tier 3 - Refunds over £3,000	<p>Council Tax and Recovery Manager, to carry out their role, has the authority and system access to input bank details and process refunds to customers without any scrutiny.</p> <p>Refunds created by Council Tax team members are passed to Team Leaders for checking and the refund is then passed to Council Tax and Recovery Manager for processing.</p> <p>Refunds created by a Council Tax Team Leader, are passed directly to Council Tax and Recovery Manager for checking and processing by the Council Tax and Recovery Manager.</p>

Source: Aberdeen City Council Reports

21. Managing accounts in credit did not feature as a high priority within the council's internal control systems. The amounts involved were small and, initially, any refund depended on a taxpayer seeking a request. In addition, once automatic direct debit payments were available, it was expected many overpayment issues would be resolved.

22. Controls were in place in the form of authority limits. There were no exception reports for this area of work and reports of refunds paid were not routinely run or reviewed. Had this been the case, the embezzlement would have been identified much earlier. An average council tax bill is currently around £2,000 to £3,000 per annum and while an occasional refund of a whole year's council tax might arise, several refunds of this scale every month would have attracted attention.

23. At 31 March 2024, there were only 105 accounts ([Exhibit 6](#)) with credit balances over £1,000. By comparison, there were 16 fraudulent refunds in 2023/24 with an average value of £2,932 ([Exhibit 4](#)).

Exhibit 6**Council Tax credit balances at 31 March 2024**

Year	Number	%
£0 to £500	6243	95
£500 to £1,000	245	4
£1,000 to £1,500	49	1
£1,500 to £2,000	27	-
£2,000 to £2,500	12	-
£2,500 plus	17	-
Total	6,593	100

Source: Aberdeen City Council Reports

The internal control environment

24. In the public sector, there are recognised fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

25. Auditors aim to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes their opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

26. Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

27. As part of the financial statements audit, the external auditor regards council tax income as a material financial system and considers the key controls in place. This focuses on the key aspects of the income accounts including billing (including discounts and exemptions), collection and the adequacy of the provision for non-collection to ensure that council tax income is not materially misstated.

28. When planning audit assignments, internal audit consider:

- the significant risks to the activity's objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level
- the adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.

29. Internal audit routinely undertake audits of council tax administration. The scope might focus on one aspect of administration or take a wider view across the service. The last audit which included some consideration of refunds was a review of council tax billing carried out in 2016. This included samples of reliefs, payments and refunds. In respect of refunds, the auditor reported that the sample was correctly calculated, supported by appropriate documentation, authorised and refund payments had been made to the correct bank accounts.

Improvements in the council's internal controls

30. The council was quick to respond once the suspected fraudulent activity was brought to officers' attention. Internal counter-fraud officers undertook initial enquiries before referring the matter to Police Scotland. Disciplinary proceedings were quickly enacted. This resulted in the individual pleading guilty to the embezzlement of funds and receiving a prison sentence.

31. The Chief Officer – Finance undertook a review of the systems and processes operating around accounts in credit and refunds and provided the Audit, Risk and Scrutiny Committee with an update in February 2024. Immediate action was taken in October 2023 to strengthen segregation of duties between processing and approving refunds and inputting bank details.

32. An improvement plan was prepared by the service covering council tax refunds and wider banking and supplier payment controls. Ten actions were identified for which prompt steps were taken to implement five and the remainder, with one exception due in July 2024, were prioritised for implementation by December 2024. Given the passage of time since the fraud was identified, the inclusion of interim milestones would have been helpful to maintain focus and demonstrate progress.

33. The council's officer-led risk board monitored progress with the actions between March and October 2024. This responsibility has now passed to a Task and Finish Group which has recently been convened to oversee completion of the actions and provide assurance to the corporate management team. Membership includes a range of finance, council tax and governance officers.

34. In July 2024, the Chief Officer – Finance sought assurance that key control weaknesses had been addressed and engaged internal audit to assess progress with implementation and offer further

considerations to strengthen the framework. Work has been undertaken to address the improvement actions identified by the service. In some cases, the associated controls have yet to be embedded in a way that fully addresses the issues identified. The chief internal auditor also identified a number of additional system-wide risks and made further recommendations.

35. In the chief internal auditor's view, most actions were therefore only partially complete with some expected to take longer than the target dates previously reported by the service. The Task and Finish Group have recently taken ownership of the improvement plan including the additional recommendations and now need to increase momentum by prioritising the additional recommendations and allocating clear responsibilities and timescales for action.

Lessons for others

36. While the fraud was complex, weaknesses in the council's internal controls facilitated the fraud and meant that it was not detected for some time. In particular, the council had controls in place but there was no scrutiny to ensure the effective operation of these controls. All councils should 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.

37. The processes around the annual governance statement also provide a useful opportunity for councils to take stock of the key controls and processes in place and whether self-assessment processes are sufficient to provide elected members and officers with the required assurances.

The council's response to taxpayers

38. The council is acutely aware that accounts in credit balances belong to taxpayers and that the funds are held for safekeeping by the council. The priority for the council has therefore been to make sure that the individual council tax accounts affected were corrected and credit balances reinstated.

39. Since February 2024, there has been ongoing work to identify all accounts affected by the embezzlement. So far, around 1,400 accounts (25%) have been identified from the estimated 5,700 accounts affected.

40. At this stage, no attempt has been made to contact taxpayers and no refunds have been made. There are practical challenges of providing a refund to taxpayers often years after the event, who had not already been located at the time.

41. The council intends to try to establish contact with the relevant taxpayers and where this is not possible, revised procedures for managing accounts in credit will be applied. When there is no response to follow up correspondence, a credit balance will be cleared by writing the amount back in the council tax system. Should a taxpayer ever identify themselves to the council in the future however, the money remains available for repayment.

42. Provision was made in the 2023/24 annual accounts for the loss of funds. The council expects to recover the loss through a combination of cash from the pension of the perpetrator and a claim on the council's insurance.

Conclusions

- 43.** There were failures in controls within the council that allowed this fraud to continue over a prolonged period. In particular, a lack of segregation of duties and monitoring in relation to council tax refunds allowed the perpetrator to transfer balances between council tax accounts.
- 44.** Controls exist to safeguard both the employees and the employer. In this case, failure to implement controls enabled an abuse of authority which, when combined with a detailed knowledge of council tax administration, provided the opportunity to withdraw funds inappropriately.
- 45.** In totality, the scale of the fraud was significant. There was no major impact on the individual financial statements from 2006/07 to 2023/24 and the payments did not represent a material misstatement in any given year.
- 46.** The amounts were taken from balances held by the council on behalf of taxpayers who had made overpayments on their council tax accounts. The council recognises its safeguarding role, and to date, has identified around 25 per cent of the accounts affected. No attempt has yet been made to contact taxpayers and make refunds.
- 47.** Once an irregular transaction was identified in September 2023, the council acted quickly to deal with the individual, the situation and take corrective action. Key controls such as segregation of duties were promptly revised and an improvement plan of prioritised actions was developed. Good progress has also been made with processes to recover lost funds.
- 48.** Work was undertaken to address the improvement actions identified by the service but some of the associated controls have yet to be embedded in a way that fully addresses the issues identified. Management requested internal audit review progress being made against the improvement plan and consider controls to further strengthen the framework around accounts in credit and refunds. A number of additional system-wide risks were duly identified and further recommendations were made.
- 49.** In the chief internal auditor's view, most actions were therefore only partially complete with some expected to take longer than the target dates previously reported by the service. The Task and Finish Group have recently taken ownership of the improvement plan

including the additional recommendations and now need to increase momentum.

50. The council generally has a sound system of internal controls in place but should take the opportunity to undertake a risk assessment of its wider internal control and counter-fraud arrangements and use the annual governance statement process to review its self-assessment arrangements across services.

The 2023/24 audit of Aberdeen City Council

Council tax refunds - a significant fraud



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit.scot
www.audit.scot