

ABERDEEN CITY COUNCIL

COMMITTEE	Audit Risk and Scrutiny
DATE	11 September 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Update on Accounts Commission s.102 report on Council Tax Fraud
REPORT NUMBER	CORS/25/217
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford & Jamie Dale
REPORT AUTHOR	Jonathan Belford & Jamie Dale
TERMS OF REFERENCE	3.4

1. PURPOSE OF REPORT

- 1.1 To provide the Committee with an update on the implementation of the Accounts Commission recommendations, following consideration of the s.102 report by the Council in February 2025.

2. RECOMMENDATION(S)

That the Committee:

- 2.1 note the content of the report;
- 2.2 note that the Accounts Commission Findings have been progressed to conclusion; and
- 2.3 note Council Tax system and process priority actions are complete.

3. CURRENT SITUATION

- 3.1 On 17 February 2025 the report to the Council, [CORS/25/031](#), included consideration of the Accounts Commission s.102 report into the Embezzlement of Council Tax monies.

- 3.2 The Council agreed the following recommendations:

1. Note the content of the Accounts Commission report and accept the Commission findings contained therein;
2. Commend the individual who identified the fraud, with the Chief Executive writing to them to express the Council's gratitude;
3. Note the Commission finding (4) in respect of the Internal Audit function regularly considering areas that might be perceived as low risk when developing audit plans and instruct the Chief Internal Auditor to consider this finding within the proposed Internal Audit Plan for 2025/26-2027/28, which is due to be presented to the Audit, Risk and Scrutiny Committee in February 2025;

4. Ask the External Auditor to set out in their Annual Audit Plan for 2024/25 and future years how, in light of the Commission's findings, the tests of assurance they undertake may be revised in respect of the significant risks of material misstatement due to control weaknesses and fraud caused by management override of controls; and
5. Refer the matter to the Audit, Risk and Scrutiny Committee, with the Chief Officer – Finance and Chief Internal Auditor providing a joint report on the implementation of the Commission findings and action plan no later than September 2025.

3.3 Following that meeting action was taken to address them and the table below confirms the position in relation to each one.

Recommendation	Current Position
1. Note the content of the Accounts Commission report and accept the Commission findings contained therein;	Complete.
2. Commend the individual who identified the fraud, with the Chief Executive writing to them to express the Council's gratitude;	Complete, the Chief Executive wrote to the individual following the meeting.
3. Note the Commission finding (4) in respect of the Internal Audit function regularly considering areas that might be perceived as low risk when developing audit plans and instruct the Chief Internal Auditor to consider this finding within the proposed Internal Audit Plan for 2025/26-2027/28, which is due to be presented to the Audit, Risk and Scrutiny Committee in February 2025;	Complete, the Chief Internal Auditor considered the content of the report and in delivering the Internal Audit Plan for 2025/26-27/28 to the Committee he confirmed in his introduction that this recommendation had been taken account of in preparing the plan.
4. Ask the External Auditor to set out in their Annual Audit Plan for 2024/25 and future years how, in light of the Commission's findings, the tests of assurance they undertake may be revised in respect of the significant risks of material misstatement due to control weaknesses and fraud caused by management override of controls; and	Complete, the Annual Audit Plan (EA/25/001), presented to the Committee on 8 May 2025, included additional actions from previous years that the audit team would undertake in carrying out the 2024/25 Annual Accounts audit, in light of Commission findings.
5. Refer the matter to the Audit, Risk and Scrutiny Committee, with the Chief Officer – Finance and Chief Internal Auditor providing a joint report on the implementation of the Commission	Complete, this report addresses this recommendation.

findings and action plan no later than September 2025.	
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3.4 As can be seen from the table above, the agreed actions from the Council report in February 2025 have been acted on in full.

3.5 In respect of the fifth action, there are two parts to this, (i) implementation of the Commission findings; and (ii) implementation of the action plan.

Implementation of the Commission Findings

3.6 The Accounts Commission Report Findings were as follow:

- i. The member of staff who identified this fraud should be commended, for having the confidence to initially raise the issue and to then escalate it when they remained concerned by the response received. The Commission wishes to stress the importance of the council keeping its policies, training, and procedures in relation to counter-fraud and whistleblowing up to date and communicated to all staff. This will ensure that staff continue to have the confidence to raise concerns if they suspect something fraudulent may be happening.

Current position – the member of staff was commended by the Chief Executive. The Council has continued to focus on keeping policy and training up to date, with the Staff Governance Committee, 25 August 2025, receiving an update on the Whistleblowing policy (CORS/25/197), while the latest version of mandatory online training has been released, entitled “Introduction to Fraud, Bribery and Corruption”. Furthermore the Council has established the ‘Fraud Group’, reporting to the Risk Board with the following purposes (i) The identification of fraud risks and the organised response within a formal fraud risk management framework; (ii) act as a forum in which fraud risks and potential mitigations can be discussed in a transparent and collaborative manner prior to agreeing tasking requirements; and (iii) provide the Risk Board with updates on its activities at the Board’s Risk and Compliance meetings and will escalate all tasking and compliance issues as and when required.

- ii. The Commission recognises that the council reacted quickly once the suspected fraud was brought to their attention and has made progress to recover lost funds. However, this case exposed real weaknesses in internal controls, allowing the perpetrator’s actions to go unnoticed for 17 years. While controls and policies were in place, reports were not routinely run or reviewed and there was no scrutiny by the council to ensure the effectiveness of controls, something that is of concern to the Commission.

Current position – the full value that was embezzled has been recovered either from the perpetrator or the Council insurers, the Council were also awarded monies from further prosecution under the proceeds of crime laws. The actions taken initially in the area of Council Tax refunds included increased scrutiny of the processes and this has been maintained.

- iii. The Commission is pleased to see evidence that the council is taking the matters highlighted by this fraud seriously, including the segregation of

duties immediately following the issue coming to light, the development of an improvement plan by the service, and the engagement of internal audit to further strengthen key controls. However, controls have yet to be embedded in a way that fully addresses all the issues identified. December 2024 was identified as a key implementation date for improvement actions, but the absence of interim milestones makes it difficult to assess progress on the ground. As a matter of priority, the Commission asks the council's 'Task and Finish' Group to confirm to elected members and management when all actions will be complete, given it has now been more than a year since the perpetrator was charged.

Current position – the Chief Officer – Finance presented a summary position of the progress on the implementation of the action plan, this has been updated to reflect the current status and progress, as at end of August 2025. That summary is shown at paragraph 3.7 of this report.

- iv. There is an important obligation on Aberdeen City Council to have and to implement effective financial controls, which safeguard public assets, across all its functions, irrespective of the level of income and expenditure involved. Building on this experience, the Commission would urge the council to ensure that no areas are neglected within their control environment and that the council's internal audit function regularly considers areas that might be perceived as low risk when developing audit plans. Through governance processes, we expect to see evidence that the council's management team is acting upon and applying recommendations from both external and internal auditors to address potential weaknesses and risks.

Current position – the Chief Internal Auditor specifically considered the findings of the Commission in preparing and presenting his Internal Audit Plan for 2025-28 and has a number of internal audits that will consider the lower level of risks. The Council management team continues to track and follow up on both internal and external audit recommendations. This is formally recorded through the Risk Board, with each cycle of Audit Risk and Scrutiny Committee meetings receiving a report from the Chief Internal Auditor on the progress with implementing agreed actions to ensure that the control environment is as strong as it can be within the resources made available.

- v. The Commission expects all councils in Scotland to ensure that fundamental internal controls are in place and working effectively. Such controls include appropriate segregation of duties, ensuring systems reconciliations are carried out, maintenance of system documentation (detailing key controls), and budget monitoring. All councils should also be self-assessing controls and processes through their annual governance statement. It is also important that across all councils, internal and external auditors raise and discuss any areas of potential concern.

Current position – this is not something that the Council can directly influence, but it is noted that the Accounts Commission wrote to all local authorities following the publication of their s.102 report drawing the content and findings to their attention and highlighting the expectation that the Commission has of

local authorities. The Chief Officer – Finance has discussed the matter with members of the CIPFA Directors of Finance Section, drawing it to their attention too.

Implementation of the Action Plan

- 3.7 In the report to Council, February 2025, it was noted that the Accounts Commission finding was clear that the actions must be completed and for milestones to be created to support the successful progress, tracking and implementation of these actions. The Chief Officer – Finance has updated the progress in implementing the action plan, a summary of which is as follows.

Subject	Number of Areas for Action	Number of Sub-actions recommended by IA?	Has action been taken by management to address these actions?	Are milestones and target dates in place?	How many have been closed off by end Aug 2025 (Jan 2025)?
Wider Council Tax Scrutiny and Controls	3	14	Yes	Yes	9/14 64% (9/14 (64%))
Applications to other Council Systems	7	24	Yes	Yes	4/24 17% (0/24 (0%))

- 3.8 While this shows progress, there remain actions to be completed. Where the time is being taken is primarily in respect of introducing enhancements to the control environment across different areas of the Council, and this includes the need for Data Protection Impact Assessments (DPIA) being carried out, procurement and implementation of systems. The delivery of these has been more challenging and far more resource intensive than had been intended. All actions continue to be worked on where they have not been closed off.
- 3.9 The latest update to the action plan, August 2025, shows that attention has been given to core Council Tax systems and processes with the priority actions having been completed.
- 3.10 These measures have significantly reduced the risk of recurrence under similar circumstances. Importantly, a proportion of the remaining actions are not indicative of systemic vulnerabilities but are enhancements aimed at further fortifying the Council's control environment. Outstanding items—such as cross-referencing employee bank details across systems, refining system administrator access controls, and formalising payee identification standards—can be seen as strategic improvements. They are designed to elevate the Council's fraud detection capabilities and align with best practices in financial governance. These actions are being pursued with clear milestones and responsible officers assigned, ensuring accountability and timely delivery.
- 3.11 The Council is actively exploring advanced technologies to reinforce its control environment. This includes:
- Cloud-based bank validation tools for fraud detection, with a cost-benefit analysis underway; and

- Potential deployment of NXG Forensics software to match employee and supplier payment data.
- 3.12 These innovations reflect a forward-looking approach that prioritises resilience, transparency, and continuous improvement.

Internal Audit Assessment

- 3.13 Progress has been made in implementing enhanced controls for Council Tax, arising from actions contained in the Financial Controls Improvement Plan (FCIP). Finance and People and Citizen Services (Revenues and Benefits) have introduced a robust post-refund payment scrutiny process for Council Tax refunds, which contributes to the early detection and prevention of payment errors and fraud. Additionally, improvements to the Faster Payment/CHAPS requisition and approval processes have strengthened the segregation of duties, further safeguarding financial operations. While some related risks have been noted it is recognised that ongoing efforts remain necessary to further refine and improve control measures across Council systems, ensuring that fraud prevention and effective financial management continue to evolve.
- 3.14 However, as per the table in 3.7, actions have taken longer than originally estimated with delays to deliver improvements to controls over the following areas:
- Repeat Council Tax Refund process sign off
 - Bank Account Evidence/Validation Requirements (two actions)
 - Non-Payroll Payments to Employee Bank Account Detail checks
 - Privileged Financial System Access Control/Scrutiny
 - Control Over New Supplier Creation/Amendment
 - Purchase Card Use Scrutiny
 - Fraud Control Over Aged Creditors
- 3.15 Whilst it is positive that FCIP progress has been made in the last six months, more progress was expected to have been made, which would support the enhanced control environment, in turn reducing fraud risks across wider council systems. While there is a recognition of business as usual requirements and other priorities across the Council, this work was the result of an embezzlement therefore while actions remain in progress, the Chief internal Auditor will continue to follow the progress, in conjunction with the Chief Officer - Finance.
- 3.16 The Chief Officer – Finance acknowledges Internal Audit has played a valuable role in identifying additional opportunities to further strengthen control measures across our systems. Their constructive recommendations will be shared with the Chief Officer - Finance to support continuous improvement and will be incorporated into future Internal Audit reviews of the relevant areas, ensuring ongoing enhancement of the Council's control environment.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct implications arising from the recommendations of this report itself, the Council by maintaining the changes to the control environment and in following up the ongoing steps across a range of systems and working environments will continue to use existing resources.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct implications arising from the recommendations of this report.

7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Fraud on this scale if repeated could impact the finances of the council to an extent that strategic direction would have to be altered.	Underlying control environment is in place, including scrutiny by internal and external auditors. Review of other systems and payment controls has been undertaken to identify improvements and implement new controls.	L	Yes
Compliance	Failure of controls leads to failing to meet legal obligations to CT payers – and other customers and bill payers.	Underlying control environment is in place, including scrutiny by internal and external auditors. Actions have been taken to enhance specific control arrangements and requirements to mitigate the specific frauds identified.	L	Yes
Operational	Staff are vulnerable to	Changes to the processes and procedures in Council	L	Yes

	allegations if controls do not manage the work they undertake.	Tax and other systems improve segregation of duties and reporting to provide dual insight into refunds protecting staff.		
Financial	Loss of money received by the Council may have to be replaced and refunded, which will have to be funded by General Fund. There is a cost to correct our systems and records.	All avenues have been explored to recoup funds from the accused, with the full value having now been recovered, including a successful insurance claim.	L	Yes
Reputational	Loss of trust from the population and our customers that the Council cannot manage finances adequately. Increase in non-payment as CT payers uncertain about their account being managed accurately and effectively.	<p>A communications strategy has helped to ensure consistent messages are used to inform citizens and council tax payers about the situation.</p> <p>Also ensuring that those that have committed crimes against the Council are brought to justice is an important part of building trust that offending will not be ignored.</p>	M	Yes

Environment / Climate	None			n/a
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8. OUTCOMES

<u>COUNCIL DELIVERY PLAN 2025-26</u>	
	Impact of Report
Aberdeen City Council Policy Statement <u>Working in Partnership for Aberdeen</u>	There are no direct implications for the stretch outcomes
<u>Local Outcome Improvement Plan</u>	
Prosperous Economy Stretch Outcomes	There are no direct implications for the stretch outcomes
Prosperous People Stretch Outcomes	There are no direct implications for the stretch outcomes
Prosperous Place Stretch Outcomes	There are no direct implications for the stretch outcomes
Community Empowerment Stretch Outcomes	There are no direct implications for the stretch outcomes

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	It is confirmed by Chief Officer – Finance that no Integrated Impact Assessment is required.
Data Protection Impact Assessment	Not required.
Other	No other impact assessments have been carried out.

10. BACKGROUND PAPERS

- 10.1 Council, 17 February 2025, Accounts Commission Findings – s102 report Council Tax refunds – a significant fraud – CORS/25/031
- 10.2 Audit Risk and Scrutiny Committee, 20 February 2025, Internal Audit Plan 2025-28 – IA/25/002
- 10.3 Audit Risk and Scrutiny Committee, 8 May 2025, Annual Audit Plan for 2024/25 Audit – EA/25/001

11. APPENDICES

11.1 None

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