

The Highland Council

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| Agenda Item | 3 |
| Report No | AC/7/25 |

Committee: **Audit Committee**

Date: **28 May 2025**

Report Title: **Internal Audit Reviews and Progress Report – 10/01/25 - 25/04/25**

Report By: **Strategic Lead (Corporate Audit)**

1. Purpose/Executive Summary

1.1 This report provides details of the work undertaken by the Internal Audit section since the last report to Committee in February 2025.

2. Recommendations

2.1 Members are asked to:

- i. **Consider** and **note** the Final Reports referred to in Section 5.1 of the report.
- ii. **Scrutinise** and **approve** the current work of the Internal Audit Section outlined at sections 6 and 7, and the status of work in progress detailed at **Appendix 1**.

3. Implications

3.1 **Resources** – One of the Senior Auditors transferred to a new role in Corporate Finance on 01/03/25 resulting in a reduction in resource to deliver the planned internal audits for the year ahead. A recruitment exercise is planned soon. The internal audit team is maximising the existing resources available to aid the timely delivery of audits.

3.2 **Risk** - the risks and any associated system or control weaknesses identified as a result of audit work or corporate fraud investigations will be reviewed and recommendations made for improvement.

3.3 There are no Legal, Health and Safety or Gaelic implications arising from this report.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children’s Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is an update report and therefore an impact assessment is not required.

5. Internal Audit Reports

- 5.1 There have been two reports issued during this period as detailed in the table below.

| Service Cluster | Subject | Audit opinion |
|-----------------|--|----------------------|
| People | Primary Schools - Review of financial arrangements | Reasonable Assurance |
| Corporate | Council Tax Refunds | Full Assurance |

Each report contains an audit opinion based upon the work performed in respect of the subject under review. The five audit opinions are set out as follows:

- (i) Full Assurance: There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) Substantial Assurance: While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) Reasonable Assurance: Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iv) Limited Assurance: Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
- (v) No Assurance: Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

6. Internal Audit work in progress

- 6.1 The remaining audits for the 2024/25 Internal Audit Plan were approved at the November 2024 Committee meeting. These are in progress and their current status is provided at **Appendix 1**. Additional unplanned work has been added to the agreed audits (in response to Audit Scotland’s report on the Aberdeen City Council Tax Fraud). We have also brought forward a review of Children’s Services -Transition Arrangements to coordinate this with an NHS Highland internal audit review of the

same area. The Internal Audit Team has continued to make best efforts to ensure timely completion of this audit work (noting resources at 3.1).

7. Other Work

7.1 The Section has been involved in a variety of other work during the period which is summarised below:

- Audits for other Boards, Committees and Organisations

Audit work has been undertaken during this period for the Valuation Joint Board, Pensions Board and for High Life Highland which will be reported to the respective Boards/ Committees in due course.

- Attendance at People & Finance Systems Programme Board

Audit representation has been requested on the Board in an independent non-voting capacity. The role being carried out by the Corporate Audit Manager is to act as the “critical friend” to assist in providing assurance in matters relating to internal controls, governance and risk management.

- Attendance at officer meetings for Inverness Green Freeport

Developing preparatory understanding of arrangements surrounding the role of the Highland Council as Accountable Body for the Inverness Green Freeport.

- Attended Primary School Head Teachers briefing sessions

Provided information on best practice and disseminated learning from internal audit work to assist Primary School Head Teachers in carrying out their role.

- Global Internal Audit Standards (GIAS)

Work is continuing with regard to implementing the requirements of the GIAS.

- Internal Quality Assurance

Developed and issued Microsoft forms to gather quality assurance feedback from stakeholders (Audit Committee members, Senior Management and client officers) on the provision of the internal audit service. The feedback received is provided within the Internal Audit Annual Report considered.

- Corporate Fraud, Whistleblowing concerns and other investigations activity

The Single Point of Contact (SPOC) work is an ongoing commitment providing information to Police Scotland, the Department of Work and Pensions and the UK Immigration Enforcement Office. This work assists these organisations in investigating potential crimes and in making our communities safer. An allowance of time for these commitments is made within the Internal Audit Plan each year.

We have a current commitment of 8 cases. This comprises of several active cases subject to investigation and those where the investigation has been concluded but there is ongoing recovery or report to the Procurator Fiscal.

Ongoing investigations during this period include:

- Two ongoing Whistleblowing cases.
- One ongoing investigation reported by the Service.
- Four Investigations of specific cases of overpayments referred from Payroll.

- One suspected theft allegation. The allegations were proven and resulted in a disciplinary action which has been concluded. A system weaknesses draft report is presently being prepared.

Where active fraud and whistleblowing investigations are in progress, no further information can be provided in order to prevent these being compromised. However, once the investigations have been completed including any associated disciplinary/ legal action where relevant, the system weaknesses reports will be provided to the Audit Committee to scrutinise.

Designation: Strategic Lead (Corporate Audit)

Date: 9th May 2025

Author: Jason Thurlbeck, Corporate Audit Manager

Background Papers: N/A

Appendices: Appendix 1 - Internal Audits in progress

Appendix 1 - Internal Audits in progress

| Service | Audit Subject | Priority | Planned Days | Current Status | Planned Committee Reporting Date |
|----------------|--|-----------------|---------------------|-----------------------|---|
| Place | Climate Strategy & Sustainability | High | 30 | Fieldwork in progress | 20 August 25 |
| Place | Property Maintenance & Repairs | High | 30 | Planning in progress | 20 August 25 |
| People | Family Teams | High | 30 | Fieldwork in progress | 20 August 25 |
| Corporate | Financial management and reporting | High | 30 | Fieldwork in progress | 20 August 25 |
| Corporate | Elections management | High | 30 | Fieldwork in progress | 20 August 25 |
| People | Children's Services -Transition Arrangements | High | 30 | Fieldwork in progress | 20 August 25 |

Internal Audit Final Report

People Service Cluster Review of Financial Arrangements in Primary Schools

| Description | Priority | No. |
|---|----------|-----|
| Major issues that managers need to address as a matter of urgency. | High | 1 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 2 |
| Minor issues that are not critical, but managers should address. | Low | 1 |

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Distribution:

Assistant Chief Executive, People Cluster
Strategic Lead (Resources), People Cluster
Chief Officer - Integrated People Services, People Cluster
Assistant Chief Executive, People Cluster
Strategic Lead Finance (People), Corporate Cluster
Chief Officer - Corporate Finance, Corporate Cluster

Report Ref: HEL02/001
Draft Date: 01/05/25
Final Date: 14/05/25

1. Introduction

- 1.1 The 2023/24 School Rolls show that the Council was responsible for 166 Primary Schools which provided education for 16,194 pupils. The 2023/24 net annual budget for Primary Schools was £76.8m.
- 1.2 The audit looked for assurance around the management of school budgets (including purchasing, budgetary/ financial information reports and use of the CiA corporate finance system), particularly in respect of payroll costs as they account for a significant proportion of school budgets. Payroll overpayments have been identified as a Council wide issue in previous work carried out by the Internal and External Audit teams, and we reviewed processes in this area to establish how Primary Schools ensure that Payroll and the Workforce Planning Team (where applicable) were notified promptly of any changes to minimise the risk of overpayments. The audit also reviewed budget monitoring processes to ensure processes were in place to identify and correct any incorrect payments promptly.
- 1.3 Governance processes for School Fund accounts were also reviewed to ensure that all income and expenditure through school funds is correctly accounted for and reported in line with the Council's Financial Regulations and specifically the Instruction Note on School Funds.
- 1.4 The audit was carried out by contacting a sample of 19 primary school Head Teachers (11.4% of primary schools), who completed an online audit survey. This was followed up with a Teams meeting to obtain a full understanding of the processes with 14 of the Head Teachers and to obtain audit evidence where required. The sample of schools included a range of school sizes, locations, operational arrangements (e.g. cluster schools, 3-18 campuses) and management arrangements (including both permanent and temporary/acting Head Teachers).

It should be noted that the surveys were completed before budget holder dashboards were available to Head Teachers.

2. Main Findings

2.1 *Budget Management*

This audit objective was partially achieved. The Financial Regulations Instruction Note on Budgetary Control includes the undernoted budget holder responsibilities:

- 1) To examine monthly actual expenditure against budget at cost centre and subjective level and take appropriate action to recovering overspend positions where possible.
- 2) To ensure that expenditure charged against cost centres for which they are responsible is necessary for the conduct of the Council's business, duly authorised and correctly classified.
- 3) To ensure expenditure and income are allocated to the correct codes.
- 4) To be aware of commitments which have yet to impact on the reported position.
- 5) To ensure that all relevant expenditure has been duly processed.
- 6) To promptly process employee status changes.

The survey responses in this area highlighted that:

- 11 Head Teachers (58%) reported that staff involved in school budgets had received training, 2 (11%) said they had not received training and 6 (32%) were unsure (See Action M1).
- 13 Head Teachers (68%) regularly received monitoring reports for the school budget, 6 (32%) did not (See Action M1).
- 13 Head Teachers (68%) felt they had not received sufficient training to manage their budget effectively, 6 (32%) felt that they had (See Action M1). Specific issues where more training was referred to were around the difference between the School Fund and the Devolved School Management (DSM) Budget, including understanding of why the School Fund wasn't included as a separate line in the DSM Budget.

- 17 Head Teachers (89%) knew who the Principal Accounting Technician supporting their school was, 1 (5%) did not and 1 (5%) was unsure.
- 10 Head Teachers (53%) were very satisfied with the support provided by the Principal Accounting Technician, 5 (26%) were somewhat satisfied, 3 (16%) neither satisfied or dissatisfied and 1 (5%) somewhat dissatisfied.

During the Teams discussions with Head Teachers, 2 Head Teachers stated that they found it difficult to find protected time within the school day to manage school budgets. While they had used the training videos on CiA, they felt dedicated Head Teacher sessions would be more useful as this would provide protected training time (See Action M2).

Overall, it is considered that there were opportunities to better demonstrate compliance with the Financial Regulations Instruction Note on Budgetary Control through improved financial training and the accessibility of budgetary monitoring information. Head Teachers were aware of who their Principal Accounting Technician was and were mostly satisfied with the level of support provided. The implementation of CiA, with provision of on demand financial information, dashboards and associated CiA online training should further assist Head Teachers in budget management.

2.2 *Payroll Management*

This audit objective was partially achieved. The survey responses in this area identified that:

- 10 Head Teachers (53%) regularly received reports on staff charged to their budget, 9 (47%) did not (See Action M1).
- 13 Head Teachers (68%) regularly checked staffing reports, 6 (32%) did not. These figures do not correspond with the figures in the bullet point above as 4 Head Teachers who stated they did not receive staffing reports also stated that they regularly checked staffing reports, whereas 1 Head Teacher who stated that they received staffing reports responded that they did not regularly check the reports (See Action M1).

- 18 Head Teachers (95%) had made their staff aware of the requirement to notify the Head Teacher and Payroll of any errors with their pay, 1 (5%) had not.

During the more detailed discussions, 1 Acting Head Teacher stated that while sickness absences were noted at the school, they were not recorded in MyView and therefore not communicated to Payroll. As a result, absence statistics and sick pay were not recorded and there was the potential for overpayments for staff on long-term sickness (See Action H1). The other schools included in the audit were recording sickness absence appropriately.

The inconsistencies in responses received highlight that there were opportunities to further improve the monitoring of staff costs and to ensure that there was clear understanding of monitoring required to be carried out and to ensure that prompt action is taken to avoid overpayments occurring.

2.3 *School Fund*

This audit objective was partially achieved. The Financial Regulations Instruction Note on School Funds includes the undernoted responsibilities for Head Teachers:

- 1) The Head Teacher must ensure that the processes put in place are robust and that there is sufficient scrutiny of the records to ensure any inconsistencies or irregularities are identified.
- 2) All accounts must require two signatories for every cheque drawn. The Clerical Officer, Administrative Assistant or Teacher who is maintaining the School Fund records must not be an authorised signatory (if this is the case alternative arrangements must be put in place).
- 3) It is imperative that bank reconciliations are undertaken regularly. The frequency of this task may depend on the number of transactions within the School Fund, for larger Funds this should be at least monthly.
- 4) Head Teachers must ensure that they are provided with, and insist on receiving, detailed bank reconciliations regularly. It would be good practice for the Head Teacher to review and sign the reconciliation documentation as evidence of this review at regular intervals throughout the year. In a larger

school it is recommended that head teachers sign off bank statements on a monthly basis. In a smaller school quarterly may be more appropriate depending on the volume of transactions.

- 5) Accounts must be produced annually following the end of the School Fund financial year (usually end of June or July).
- 6) Accounts must be independently audited.
- 7) A copy of the audited Accounts, bank statements showing the closing bank balance for all accounts held (e.g. current account, high interest account etc.) and a bank reconciliation must be emailed to the school's Principal Accounting Technician before the beginning of the October School Holidays. All three documents should be signed by the Head Teacher.

The survey responses in this area established that:

- 13 Head Teachers (68%) felt they had not received sufficient training to manage their School Fund effectively, 6 (32%) felt that they had (See Action M1).
- 14 Head Teachers (74%) stated that the school fund signatories were still employed at the school, 5 (26%) stated that some were not (See Action L1).
- 15 Head Teachers (79%) stated that their school had submitted all School Fund Accounts to the Council's Finance team, 4 (21%) stated that they had not (See Action M1).

The discussions with Head Teachers also highlighted the undernoted areas where schools were not complying with the requirements of Financial Regulations:

- The Clerical Assistant was a signatory for the school fund at 7 of the schools included in the audit (See Action M1). The discussions highlighted that in most schools there was minimal use of cheques to make payments, with online payments and/or debit cards for the School Fund bank account being more commonly used.
- 5 Head Teachers did not regularly review reconciliations between the School Fund bank statements and the record of

transactions maintained by the Clerical Assistant (See Action M1).

- 1 Acting Head Teacher was unaware of the need for the School Fund annual accounts to be audited. 3 other Head Teachers were unsure of when the accounts were last audited with 1 being unclear on who the auditor was (See Action M1).

There were opportunities to better demonstrate compliance with the Financial Regulations Instruction Note on School Funds through improved Head Teacher training on their role regarding managing and administering the school fund. This would improve governance of school funds and reduce the risk of fraud occurring.

3. Conclusion

- 3.1 The audit was carried out while reporting functionality in the CiA system was still being developed, and as a result budget monitoring data was less readily available than under the previous system. This is reflected in the responses around the availability of monitoring reports, and discussions highlighted that most Head Teachers were relying on the Principal Accounting Technician to provide monitoring information. The survey highlighted that 79% of Head Teachers were either satisfied or very satisfied with the level of support they received from their Principal Accounting Technician. Since the completion of the surveys Budget Holder dashboards have been made available, which will enable Head Teachers to obtain real time budget monitoring information and staffing costs. Regular monitoring meetings will continue to take place with Principal Accounting Technicians to provide advice and guidance around school financial processes to all Head Teachers.

There is a New & Acting Head Teacher Induction programme in place, beginning September each year which included a session on Finance in September 2024. While this provides a useful forum for presenting information and engaging with Head Teachers, it is important that there is also support for Head Teachers throughout the school year, particularly for those new in post or in an Acting Head Teacher role. This is reflected in the recommendations within this report, which highlight areas for improvement in training content and delivery methods which would enable Head Teachers to carry out the financial aspects of their role in line with

the Council's Financial Regulations. In addition, new line management and support arrangements for Head Teachers which are currently being implemented will assist in providing support to Head Teachers to ensure that they are aware of and adhere to the Financial Regulations.

4. Action Plan

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|-----|----------|---|---|--|-------------------------------|-------------|
| | | | | | Responsible Officer | Target Date |
| H1 | High | One Acting Head Teacher stated that sickness absences were not recorded in MyView and therefore not communicated to Payroll. As a result, absence statistics and sick pay were not recorded and there was the potential for overpayments for staff on long-term sickness. | <ol style="list-style-type: none"> 1. Payroll should be immediately informed via MyView of staff absences for the school. 2. Absences should be reviewed to establish whether any overpayments occurred. 3. Training for new and acting Head Teachers should prioritise early explanation of processes for recording and notification of sickness absence. | The Head Teacher concerned will be contacted to ensure that all staff absences for the school have been logged in MyView. Payroll will be contacted and asked to review any absence notifications to see if any overpayments have occurred. Training is already being delivered for new and acting Head Teachers, which includes absence management, this will be reviewed to ensure that the process of recording sickness absence is included. Consideration will also be given to including Administrative and Clerical staff in this training. | Strategic Lead (Resources) | 31/10/25 |
| M1 | Medium | <ol style="list-style-type: none"> 1. Survey responses indicated that Head Teachers would welcome additional training on budget management and school funds. 2. The Financial Regulations Instruction Note on School Funds was not always being followed in respect of: <ul style="list-style-type: none"> • Independent audit of school fund accounts and submission to the Council's Finance team. • Clerical Assistant being included as a cheque signatory despite being | Detailed training on budget management, payroll monitoring and school funds should be included in the induction process for new and acting Head Teachers. The training should be designed to ensure that the requirements of the Financial Regulations Instruction Notes on Budgetary Control and School Funds are fully covered, and their importance is understood. Training records and uptake should be monitored to ensure that training is completed and that all Head Teachers attend. | Financial training for new and acting Head Teacher is already taking place including dedicated input from the Finance Team. This will be reviewed to ensure that the recommendations are included and that Finance staff who provide support to schools are also aware of the recommendations. There is a dedicated section for budget holder training within the CiA financials website. In addition to this there is mandatory training that Head Teachers are expected to complete on Financial Regulations on Traineasy. | Strategic Lead (Resources) | 31/10/25 |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|-----|----------|---|---|--|-------------------------------|-------------|
| | | | | | Responsible Officer | Target Date |
| | | <p>responsible for maintain school fund records.</p> <ul style="list-style-type: none"> Lack of oversight of reconciliation between school fund records and bank statements by the Head Teacher. | | Reminders and links will be sent to all primary Head Teachers. | | |
| M2 | Medium | Online training using videos was felt to be less effective in some cases due to time pressures faced by Head Teachers. | Different methods should be available to improve the likelihood of Head Teachers engaging with the training. This could include training videos/demonstrations, supported online training (e.g. through Teams) and forums where questions could be raised and answered. | Dedicated training for Head Teachers and education support staff was provided both on-line and limited in-person sessions when CiA was being implemented. Consideration will be given to how training can be delivered effectively going forward. Finance Teams are able to review the financial insights dashboard within CiA for each budget holder and are therefore able to support budget holders in focussed sessions to understand their budget position. | Strategic Lead (Resources) | 31/10/25 |
| L1 | Low | Five Head Teachers stated that School Fund cheque signatories were no longer employed at the school. | While there was a low volume of cheque payments in the schools covered by the audit, cheque signatories should be kept up to date to ensure that signatories are available to sign cheques where required. | Reminders will be issued to all Head Teachers that signatories must be current employees. | Strategic Lead (Resources) | 31/08/25 |

Internal Audit Final Report

Corporate

Council Tax refunds

| Description | Priority | No. |
|---|----------|-----|
| Major issues that managers need to address as a matter of urgency. | High | 0 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 0 |
| Minor issues that are not critical but managers should address. | Low | 1 |

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Full Assurance** can be given in that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

Distribution:

Chief Officer, Revenues and Commercialisation, Corporate Service
Business Development and Support Manager, Corporate Service
Assistant Chief Executive, Corporate Service

Draft Date: 09/05/2025

Final Date: 13/05/2025

1. Introduction

1.1 In January 2025 the Controller of Audit reported to the Accounts Commission in relation to a significant Council Tax refund fraud perpetrated against Aberdeen City Council. The fraud took place over 17 years and was investigated internally in 2023/24. A copy of the report is provided at Appendix 1.

1.2 The Controller of Audit's report also stated: *The Commission expects all councils in Scotland to ensure that fundamental internal controls are in place and working effectively and that: It is also important that across all councils, internal and external auditors raise and discuss any areas of potential concern.* The report listed five fundamental internal controls, and these have been considered in sections 2.1 – 2.5 below.

A second related audit review is currently taking place to examine the key controls for other Council systems that facilitate payments and this will be reported to a subsequent meeting of the Audit Committee. This report relates to the review of the internal controls surrounding Council Tax refunds.

1.3 The Council had a revenues and benefits system containing details of all Council Tax accounts/payees. This was separate from the financial system. Refunds were processed by the Exchequer support team. From April 2024 to March 2025 there were 2,469 Council Tax refunds totalling £1,662,806.

2. Main Findings

2.1 **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).*

There was evidence of appropriate segregation of duties as multiple officers were involved in the refund process. Access to the refund part of the revenues and benefits system was restricted to specific officers, a sample of users showed each of these had a valid reason for accessing this system. The revenues and benefits system was set up to ensure the person who authorised a refund

could not be the same person who created the refund, a live example of this was observed to confirm the control operation. Two separate teams were then responsible for posting the refund details to the accounts payable ledger in the financial system which then enabled payment.

2.2 **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*

Control totals were used to verify the upload of refund batch files from the revenues and benefits system to the financial system. After refunds had been authorised on the revenues and benefits system, the batch file of refunds transferred to accounts payable in the financial system was checked by 2 separate teams for: total number of payments, monetary value of these and sum of all account and sort codes for all transactions (to guard against any customer bank account numbers being altered).

On a monthly basis the Exchequer support team reconciled the number and value of refunds processed in the revenues and benefits system to the financial ledger. This would identify if an additional erroneous payment had been created. We were able to verify that there was evidence of the reconciliations being routinely carried out.

2.3 **System documentation:** *system documentation should be maintained which details key controls to be carried out by staff to prevent fraud or error.*

The Exchequer support team had a step by step process for refunds. This was held in two documents, a Council Tax Refund Procedure and a Council Tax refund process map. The former had not been updated since the introduction of the new financial system, although there were plans to update it. We found that the Procedure whilst describing the process for reissuing cancelled cheques, did not detail a similar procedure for reissuing failed Bacs payments or provide detail on the reconciliation process. (See recommendation L1). The Council Tax refund process map demonstrated good practice in that the Service had reviewed key

operational processes, considered the risks and identified the key controls relied on for mitigation.

2.4 **Monitoring:** *scrutiny monitoring should be at a level that would allow managers to identify anomalous payments at an early stage.*

Scrutiny was in place to ensure refunds were made for valid reasons to the correct customer. When there were grounds for a refund an investigation was undertaken to see that there was a valid reason for the refund, and the customer did not have other outstanding Council Tax or debtor liabilities. From a sample of 9 refunds examined, evidence was held showing the reason for the refund and where necessary supporting documentation (for example to claim a discount a customer was entitled to) was held on the revenues and benefits system.

Both Processors and Authorisers were responsible for checking the refund was valid and reviewing the corresponding evidence. Authorisers could not amend the amount refunded but could reject a refund if they were not satisfied of its accuracy or validity, 448 were rejected since April 2024 indicating scrutiny at the authorisation stage (these could be resubmitted). Whilst Authorisers were aware of their responsibilities it would be better if the written procedures were explicit that the investigation stages were applicable to them too (See recommendation L1).

Where a customer paid Council Tax via Direct Debit the refund was returned to that bank account. If no bank account details were held, the customer was requested to provide bank details which were verified against a third party site to check the account and account holder name. Non-Direct Debit refunds formed approximately 20% of all refunds, 1 was checked and found to have supporting documentation for the bank account details. It would be good practice to ensure the written procedures explicitly state that supporting documentation must be held for any refund where bank details are manually entered (See recommendation L1).

On learning of the Aberdeen fraud in June 2024, the Exchequer support team immediately stopped all refund processing and checked their processes. They reviewed all Council Tax refunds on the financial system from March to June 2024 by checking:

- that all the refunds paid via the financial system matched to the refunds that had been processed and authorised via the revenues and benefits system.
- the name, sort codes, account numbers and amount matched.
- for bank details being used more than once to ensure these were genuine customers that had multiple refunds.
- for recurring names, and any names that they would recognise as staff members.

The Business Development and Support Manager confirmed that there was regular monitoring of the total amount held in Council Tax balances i.e. that customers could potentially request to be refunded.

2.5 **Counter-fraud arrangements:** *refresh and promote the counter-fraud policy with staff.*

An up-to-date Counter Fraud Policy was in place and Highland Council staff had been made aware of it. There were accessible online whistleblowing and fraud reporting forms and a telephone hotline to enable reporting of any concerns.

3. Conclusion

- 3.1 There were effective internal controls in place to mitigate risk of fraud when processing Council Tax refunds. Sample testing showed these to be working as expected. The Exchequer support team took prompt action to review refunds on being made aware of the Aberdeen City fraud. We have made one low priority recommendation to update procedure notes.

4. Action Plan

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|-----|----------|---|--|---|--|-------------|
| | | | | | Responsible Officer | Target Date |
| L1 | Low | <p>The Council Tax Refund Procedure had not been updated since the introduction of the new financial system, although there were plans to update it. Review of the Procedure identified that there is scope to strengthen processes as follows:</p> <p>The Procedure whilst describing the process for reissuing cancelled cheques, did not detail a similar procedure for reissuing failed Bacs payments or provide detail on the reconciliation process.</p> <p>The written procedures did not explicitly state what an Authoriser reviews.</p> <p>The procedures did not mandate that manually entered bank account details have supporting documentation.</p> | <p>The Council Tax Refund Procedure should be updated to reflect current practice. It should also include the following:</p> <ul style="list-style-type: none"> • Arrangements for reissuing failed Bacs payments. • Provide detail on the steps to undertake the reconciliation process. • Whilst Authorisers were aware of their responsibilities it would be better if the written procedures were explicit that the investigation stages were applicable to them too. • State that supporting documentation must be held for any refund where bank details are manually entered. | The Council Tax Refund Procedure will be updated as per the recommendation. | Business Development and Support Manager | 30/06/25 |