

Glasgow City Council Internal Audit Section

Committee Summary

Corporate Review – Credit Balance Controls

Item 4(h)

21st May 2025

1 Introduction

- 1.1 As part of the agreed Internal Audit plan, we have carried out a review of the arrangements in place across the Council in relation to the management of credit balances and refunds.
- 1.2 Credit balances refer to situations where the amount due to a customer, vendor or any other entity exceed the amount they originally owed, often due to overpayments, prepayments or adjustments. Effective management and oversight of these balances is crucial to an organisation to ensure financial integrity, prevent errors or fraud, and comply with regulatory requirements.
- 1.3 A recent fraud case at Aberdeen City Council, where an employee embezzled more than £1m, by exploiting the lack of controls surrounding small value Council Tax credit balances, has highlighted the importance of having robust controls in place to ensure that credit balances, of any value, are identified, scrutinised and actioned appropriately, and that any refunds are only issued to the eligible party. A [summary](#) of the Accounts Commissions report, relating to Aberdeen City Council fraud was taken to the Finance and Audit Scrutiny committee in January 2025. Key messages for other local authorities outlined in this report were:
 - 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 (eg, 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.
- 1.4 The purpose of this audit was to gain assurance that there are effective controls in place in respect of the management of credit balances, including the identification of smaller credit balances and the refund approval process. The audit included a review of key controls in the following areas:
 - Documented policies, procedures, and guidelines across services regarding the identification and management of credit balances.

- The roles and responsibilities of staff involved with the processing and approval of credit balance refunds.
- Approval arrangements to ensure adequate segregation of duties is in place.
- Monitoring arrangements and threshold levels.
- System controls and permissions to prevent unauthorised users from generating and approving credit balance refunds.
- Reconciliation processes to ensure credit balances are accurate and had not been generated erroneously/fraudulently.
- A review of local internal controls and the effectiveness of these, including sample checking and investigating variances.
- Sample testing of credit balances and refunds.
- The arrangements to provide suitable management information to the appropriate officers and groups for scrutiny.

1.5 We selected a sample of services, functions and systems for review:

Service	Function	System
Financial Services (FS)	Council Tax (CTax)	Capita One
	Non-Domestic Rates (NDR)	Capita One
	Housing Benefit Overpayments (HBOP)	Capita One
Social Work Services (SWS)	Directly Provided Services	CareFirst

A Phase 2 of this audit is currently scheduled to be undertaken as part of the 2025/26 audit plan to capture any other systems that may be subject to overpayment scenarios.

2 Audit Opinion

- 2.1 Based on the work carried out we found no evidence of fraud or fraudulent activities within the scope of our review. The controls in place appear to be generally effective in mitigating significant risks related to fraud. However, we have identified certain areas where enhancements could strengthen the existing control framework.

3 Main Findings

- 3.1 For both CTax and NDR, all staff have access to both credit balances, transfers and refunds as it is a core part of their role. Each employee needs full access to the system in order to do their job and the FS Scheme of Delegation outlines the financial limits, by grade, for refund approvals. There is an adequate segregation of duties in place, and approvals are based on the value of the transaction; as the value increases the authorisation levels change. We observed that there are system controls in place which prevent one officer from processing and approving a refund. There must be two different officers involved as the system will block payment and flag as an 'integrity error'.
- 3.2 For HBOP, although there are no system controls in place, we observed that there is also segregation of duties. Refunds are processed and then approved by different officers within the HBOP team and then sent to FS Accounts Payable for payment to be processed. We also noted that for CTax, NDR and HBOP, through discussion with key officers they were aware of their role & responsibilities in respect of credits and refunds and showed a good knowledge and understanding of the arrangements.
- 3.3 Although all of the sampled functions hold documented procedures in respect of credits and refunds, we identified that some were not fully reflective of current working practices, with one not having been reviewed or updated for some time. Full details of the issues identified are recorded at recommendation 1 of the Action Plan.
- 3.4 Through sample testing of 60 refunds covering the selected functions (30 CTax, 10 NDR, 10 HBOP and 10 Directly Provided Services), we were satisfied that all applicable refunds had been appropriately made to the correct customer and bank account. Additionally, for CTax and NDR all had been appropriately approved and details held on the system to support this. However, for HBOP, we noted that although the refunds had been approved by a second more senior officer, we could not test this against approval threshold levels, as these are not in place or documented. For Directly Provided Services, we found that refunds to customer bank

accounts do take place by exception, with the majority of credits being used to adjust future bills issued to the client. For adjustments, there is no requirement for officer approval to be sought. This is only required if a customer is entitled to a refund. Although the volume of refunds made by this function are minimal compared to others in the sample, we found no evidence of fraud, however we did identify that they also have no approval threshold levels in operation.

3.5 Whilst reconciliations between feeder systems to SAP and the Finance Ledger are working effectively, there is no regular or detailed monitoring arrangements in place that focus solely on credits and refunds. There are some monitoring processes undertaken, these relate to wider activities and provide management with high level information. The information does not provide details of individual transactions or themes relating to credits or refunds; therefore, at present management are not provided with sufficient detail to enable effective regular scrutiny.

3.6 We identified that the current arrangements in respect of suspense accounts should be improved. There are occasions that customers fail to provide the correct details to enable the payment to be allocated to the correct account. Payments are held in suspense accounts until such times as officers have enough information to transfer the funds to the correct customer account. There are several suspense accounts in place for CTax. There is also one for NDR and another for HBOP. Officers based within FS/CBS are responsible for investigating the balances within the suspense accounts and moving the funds accordingly. However, we identified

occasions where payments have not been re-allocated and remain within suspense accounts. For example, a payment circa £248K was paid to the Council in March 2021 and still remains un-allocated. We were advised that an investigation into this payment would have been made at the time, however no evidence could be provided to support this, and management are currently unable to provide an explanation as to what the payment relates to. We also noted that the current management review arrangements do not provide adequate assurance that a payment has subsequently been transferred to the correct account.

3.7 An action plan is provided at section four outlining our observations, risks and recommendations. We have made four recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	4
Low	Lower level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

- 3.8 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.9 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.10 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Documented procedures are in place, which are reflective of current working practices and officers are aware of their role in the process.				
1	<p>All sampled functions hold documented procedures in respect of credits and refund processes. However, through discussion with officers and from review of the documents supplied, we identified the following:</p> <ul style="list-style-type: none"> NDR procedures have not been reviewed for some time. We were advised that the procedures are reviewed if there is a requirement to do so, for example, process or legislative change. At present they do not fully outline the arrangements and checks that should be conducted when handling customer credits and refunds. For example, the procedure does not detail the requirement for additional bank account checks to be made and when this should take place. Procedures for HBOP and Directly Provided Services do not outline the approval threshold levels for relevant officers. <p>We also noted that the HBOP function is not recorded in the FS Scheme of Delegation.</p>	<p>Service management should conduct a review of the document procedures in relation to credits & refund arrangements to ensure that these are reflective of current working practices and outline the roles & responsibilities of all officers involved in the process.</p> <p>Management should also ensure that (where relevant) that the procedures outline the required approval threshold levels for appropriate staff.</p> <p>Thereafter, these should be appropriately approved, regularly reviewed and communicated to all relevant staff with a reminder of the importance of adhering to the requirements outlined.</p>	Medium	<p>Response:</p> <p>FS – Accepted. NDR procedure note to be reviewed. The HBOP authorisation levels to the FS Scheme of Delegation will be included.</p> <p>SWS - Agreed. Current procedures will be reviewed with particular consideration given to appropriate threshold levels for officers.</p> <p>Officer Responsible for Implementation:</p> <p>FS – Head of Customer Operations</p> <p>SWS – Senior Finance Manager</p> <p>Timescales for Implementation:</p> <p>FS – 30 June 2025</p> <p>SWS – 31 August 2025</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	The absence of up-to-date documented procedures increases the risk of errors being made and inconsistent practices.			

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Credits and refunds have been handled in line with procedures and there are adequate approval arrangements.				
2	<p>We selected a sample of 60 refunds covering the selected functions - 30 CTax, 10 NDR, 10 HBOP and 10 Directly Provided Services. In the main, we were satisfied that where a refund was made, these had been handled appropriately and refunded to the correct customer and bank account. However, we found that improvements should be made to HBOP and Directly Provided Services as there are no threshold levels in place. We therefore could not be provided with evidence (where applicable) to demonstrate that the refunds had been appropriately approved, albeit more than one person is involved, and second officer checks are in place.</p> <p>The current arrangements increase the risk that errors could be made and that refunds are administered without approval from an authorised officer.</p>	<p>Service Management should review the current refund approval arrangements and determine appropriate threshold levels for relevant officers.</p> <p>Thereafter, these should be included as part of the documented procedure outlined at recommendation 1.</p> <p>Management should also ensure that going forward checks are made to ensure that approvals have been made in line with the approved threshold levels.</p>	Medium	<p>Response:</p> <p>FS – Accepted. Update FS Scheme of Delegation to include HBOPS threshold levels.</p> <p>SWS - Accepted. Current refund approval arrangements will be reviewed with particular consideration given to appropriate threshold levels for officers.</p> <p>Officer Responsible for Implementation:</p> <p>FS – Head of Customer Operations</p> <p>SWS – Senior Finance Manager</p> <p>Timescales for Implementation:</p> <p>FS – 30 June 2025</p> <p>SWS – 31 August 2025</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Adequate monitoring and reconciliations arrangements are in place and being undertaken, with details reported to senior management in a timely manner.				
3	<p>While we confirmed that high level reconciliations are undertaken, we found that detailed monitoring processes are not conducted specifically for credits and/or refunds.</p> <p>CTax and NDR</p> <p>For CTax and NDR there are the following Quality Assurance checks in place, however these are not specific to credits or refunds:</p> <ul style="list-style-type: none"> Level 1 checks consist of a random sample of account updates made the previous month, which are then checked for accuracy. This may include refunds; however, this is not guaranteed. Level 2 checks consist of FS management obtaining a full report of all updates for the previous week and can target selected areas. By default, the team carry out a random 3% audit of all updates. It is also used should there be a need to specifically target updates (such as refunds) or officer training needs. Similar to Level 1, Level 2 checks are not solely related to credits or refunds unless requested by management. For example, an audit 	<p>Service management should update the current monitoring processes to include a more granular approach to credit balances and refunds.</p> <p>Management should ensure that the information produced will provide the appropriate data that will allow relevant officers to scrutinise and ensure that credits and refunds have been handled appropriately and in line with procedure.</p>	Medium	<p>Response:</p> <p>FS – accepted. FS will introduce refund and credits as part of the established Quality Assurance checks undertaken.</p> <p>Our IT Software Supplier have confirmed new Banking software to be available late 2025 that enables verification of bank details/payee/business bank details Processes and procedure notes will be updated accordingly, along with additional reporting and checking arrangements.</p> <p>Officer Responsible for Implementation:</p> <p>Head of Customer Operations</p> <p>Timescales for Implementation:</p> <ul style="list-style-type: none"> Quality Assurance checks – 30 June 2025 Banking Software Enhancement – 31 December 2025

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	<p>focussing on the new automation process was carried out for the two weeks following the introduction of the new facility.</p> <p>Weekly reconciliations between Academy and SAP are conducted for CTax, NDR and HBOP, however this consists of top line figures, and is not individual transactions.</p> <p>Monitoring statements (Position Statements) are produced on a monthly basis. These are mainly used by key officers for budgetary information, and focus on collection rates, charges and reliefs. They do not cover credit balance information and only outline the total value of refunds made in that period.</p> <p>We were advised that reports can be downloaded from the Capita One system if there is a reason to do so and this would require management approval. However, at present there is no regular reports produced relating to credits held or refunds which have been processed and approved.</p> <p>The current arrangements increase the risk that errors or suspicious activity relating to refunds and credits may go undetected or not detected in a timely</p>			

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	<p>manner, which in turn impacts the Council's ability to address issues found.</p> <p>Additionally, the lack of management information increases the risk that senior management are not provided with sufficient details for scrutiny.</p>			

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: There are appropriate processes in place for suspense accounts and investigating unallocated credit balances.				
4	<p>There are occasions that customers fail to provide the correct details to enable the payment they make to be allocated to the correct account. In these instances, 'suspense accounts' are used. Payments are held in suspense accounts until such times as officers have enough information to transfer the funds to the correct customer account. However, we identified occasions where payments have not been re-allocated and remain within suspense accounts.</p> <p>For example, a payment circa £248K was paid to the Council in March 2021 and still remains un-allocated. No evidence could be provided to support that work was undertaken to investigate this balance, and management are currently unable to provide an explanation as to what the payment relates to. Additionally, there are no known arrangements to escalate issues, such as this when they are identified.</p> <p>We were also advised that there are management review arrangements in place to ensure that a record is held showing details of the account to which a payment is transferred from a suspense account. However, we identified that at present this only details the account</p>	<p>FS Senior Management should review the current procedures in relation to suspense accounts and ensure that these are updated to include the following:</p> <ul style="list-style-type: none"> • A process for investigating long term un-allocated balances. • Escalation arrangements. • An audit trail to support all work undertaken in respect of suspense account payments and transfers. <p>Management should also review and update the current management review arrangements to ensure that these include additional checks to verify the accuracy of the accounts to which transfers are made.</p> <p>Management should agree the action to be taken in relation to the current long-term balances which are still held in suspense accounts.</p> <p>Thereafter, details of the updated procedures should be communicated with all relevant officers, with a reminder of the importance of adhering to the requirements outlined.</p>	Medium	<p>Response:</p> <p>FS - Accepted. FS have identified the correct account for the payment of £248K, which has now been applied.</p> <p>Review of Suspense Account processes and procedures to be undertaken by the Team Manager - this will include an escalation route for high value payments that remain outstanding over an agreed timescale.</p> <p>Officer Responsible for Implementation:</p> <p>Head of Customer Operations</p> <p>Timescales for Implementation:</p> <p>30 June 2025</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>number, balance transferred and that a check has been made to ensure the figures match. There are no further checks conducted to ensure that the account where balance is moved is the correct one.</p> <p>The current arrangements increase the risk that payments are never assigned to the correct account, or made to the wrong account, leading to potential errors in billings and outstanding balances.</p> <p>There is also an increased risk that the Council's financial reporting could be inaccurate.</p>			