Glasgow City Council

Annual Audit Report
Year Ended 31 March 2023

28 March 2024

EY
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This report has been prepared in accordance with Terms of Appointment Letter, through which Audit Scotland and the Accounts Commission have appointed EY as external auditor to Glasgow City Council for financial years 2022/23 to 2026/27.

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Our report will be available on Audit Scotland's website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018.

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1. Executive summary

Financial statements

Financial statements Our assessment: Red	We have concluded our audit of the financial statements of Glasgow City Council and its Group for the year ended 31 March 2023. We have issued a qualified audit opinion on the 2022/23 financial statements for the Council and its Group in respect of the two City Building group entities. The draft financial statements were provided in line with legislative deadlines. Supporting working papers were generally of a good quality but we identified areas for improvement, in particular in relation to property, plant and equipment valuation supporting papers. During the course of the audit, we identified 20 audit differences and 6 prior year adjustments that management adjusted in the financial statements. A further 43 unadjusted differences were identified in respect of current and prior periods. Overall, we were satisfied that the Annual Governance Statement reflects the requirements of CIPFA's updated *Delivering Good Governance Framework*. We made 19 recommendations in relation to the financial statements. We also highlighted our observations on areas for potential future improvement in the financial statements.
Going concern Our assessment: Green	In accordance with the CIPFA Code of Practice on Local Authority Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. Under auditing standard ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Council and its Group has concluded that there are no material uncertainties around its going concern status, however it has disclosed the nature of its financial position in the financial statements to reflect the ongoing impact of recovery from the Covid-19 pandemic, increased demand for services and inflationary pressures. We have no matters to report in respect of our work around going concern or the conclusions reached by the Group and Council.

Our auditor judgements are RAG rated based on our assessment of the adequacy of the Council Group's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each area. This takes account of both external risks not within the Council Group's control and internal risks which can be managed by the Council Group, as well as control and process observations made through our audit work.

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Wider Scope

Financial sustainability Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered. Our assessment: Red	The Council agreed the 2024/25 budget in February 2024. This sets out significant saving and income generation requirements to meet a projected gap of £107.7 million in the three-year period to 2026/27. As part of both the 2024/25 budget and the three year savings plan, the Council did not assume any contribution from reserves but sought instead to achieve balance through savings and additional income generation, and provide contingency for some of the financial risks, including those identified below. The Council has indicated that £60 million will remain available within the Budget Support Fund at 31 March 2024 to support the delivery of the budget, including costs associated with early retirement and severance schemes. However, the Council continue to face significant risks in the medium term, including its ability to generate new sources of income at the pace required within the budget, and the financial implications both of the implementation of the new Pay and Grading Scheme, including backdated pay, projected rates of homelessness within the City, and the wider external funding uncertainty that we expect to continue going forward. There is a need for a robust medium term financial strategy to demonstrate how Council priorities will be achieved across a range of scenarios.
Financial management Financial management means having sound budgetary processes, sufficient finance team capacity and expertise. Audited bodies require the ability to understand the financial environment and whether its financial processes and financial statement control arrangements are operating effectively. Our assessment: Amber	The Council concluded that only limited assurance could be placed on the systems of internal control in the year as a result of significant governance findings, including the failure of a key business system in the year, which has been reflected in our consideration of vision, leadership and governance. There were significant additional pressures on the Finance Team following the late conclusion of the 2021/22 audit in April 2023, and the Council finance function was required to demonstrate significant resilience above that embedded in its own formal arrangements in addressing both the major setbacks to day to day operations and the scale and complexity of significant and unusual transactions. Overall, our observation is there is a lack of capacity within the Council's finance function, particularly in light of increasing financial reporting complexity and anticipated challenges in implementation of new systems going forward. The Council needs to critically reassess the sufficiency of its financial management capacity in the context of internal and external audit findings, the current system and internal control weaknesses, and the scale of the financial challenge outlined within the three-year financial savings plan. The audit of the financial statements identified further significant financial statement control weaknesses and a large number of adjustments, including errors that impact the prior year financial statements, which has been reflected in our financial statements audit commentary and overall assessment of red in that area. We have identified a number of areas where there is scope to enhance the budget monitoring reporting to Members to support better scrutiny arrangements.

Vision, leadership & governance The effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Our assessment: Red	The Council has set out its vision for the City within the Strategic Plan 2022-27. Appropriate governance arrangements have been established to monitor and scrutinise key policies and risks. However, the Annual Governance Statement reports on significant governance issues identified in 2021/22 and 2022/23. Matters arising include failures within ICT systems and a series of whistleblowing allegations within one of the Council's ALEOs, City Building, which have led to the identification of governance, HR and procurement issues. As a result of the matters identified, the Council concluded that limited assurance can be placed on the system of internal control in both 2021/22 and 2022/23. While the Council centrally can demonstrated responsiveness to these matters, there remains significant outstanding work to address the issues identified and mitigate the associated risks. These must be addressed as a matter of urgency.
Use of resources The Council's approach to demonstrating economy, efficiency, and effectiveness through the use of resources and reporting outcomes. Our assessment: Amber	The Council has taken the opportunity to review and refresh its performance management arrangements to inform reporting on progress against the Strategic Plan 2022-27. This meant that the established approach in place to produce an annual performance report was not fulfilled in 2022/23 and work is ongoing on the development of a performance dashboard. As a result, we were unable to conclude that the Council had fully met the requirements of the Statutory Performance Direction in 2022/23. The Council's performance against the Local Government Benchmarking Framework highlights strong performance overall. Arrangements are in place to consider and respond to areas where performance is lower than the national average.

Best Value

As part of our responsibilities under the Code of Audit Practice, we prepare a separate report on annual thematic topics prescribed by the Accounts Commission. For 2022/23, the Accounts Commission directed auditors to report on the effectiveness of the leadership of the development of strategic priorities. Our thematic review concluded that the Strategic Plan 2022-27 provides a clear vision and that longer term strategic planning is based on community engagement and is aligned with community planning partners. The Plan is mission-based, and therefore intentionally ambitious and stretching, containing over 230 individual commitments to be delivered by 2027.

Within the thematic review and our wider scope work we do, however, note that there is a need to further develop the performance reporting and alignment of delivery plans to support the implementation of the Plan and demonstrate how key priorities will be delivered, including the Council's longer-term climate ambitions.

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2. Introduction

Purpose of our report

The Accounts Commission for Scotland appointed EY as the external auditor of Glasgow City Council and it's Group ('the Council' or 'the Group') for the five-year period to 2026/27.

We undertake our audit in accordance with the Code of Audit Practice (June 2021); Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other relevant guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise the key findings and conclusions from our audit work. It is addressed to both the Council and the Accounts Commission, and presented to those charged with governance. This report is provided to Audit Scotland and is published on their website.

A key objective of audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved, and how risks facing the organisation can be mitigated. We use these insights to form audit recommendations to support the Council.

Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations made by the predecessor auditor (Appendix F).

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan which was presented to the Council's Finance, Audit and Scrutiny Committee on 1 November 2023. The only change to our audit approach is in respect of our group audit scope as set out on page 13.

Our review and assessment of materiality

In our Annual Audit Plan we communicated that our audit procedures would be performed using an overall group materiality of £31 million. Exhibit 1 confirms that we have assessed that this level of materiality remains appropriate.

Group performance materiality remains at 50% of overall materiality at £15.5 million.

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Exhibit 1: Our materiality assessment in 2022/23

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £31 million for the Group and £30 million for the Council. We considered whether any change to our materiality was required in light of the income and expenditure in 2022/23 and concluded that no changes were required.

	Planning Materiality	Performance materiality	Reporting materiality
Group	£31 million	£15.5 million	£0.25 million
Council	£30 million	£15 million	£0.25 million

Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to the audited section of the Remuneration Report.

Financial Statements audit

We are responsible for conducting an audit of the Group and Council's financial statements. We provide an opinion as to:

- Whether they give a true and fair view of the state of affairs of the Council and it's Group as at 31 March 2023 and of the income and expenditure of the Council and its Group for the year then ended.
- Have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code.
- Whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

We outlined the significant risks and other focus areas for the 2022/23 audit in our Annual Audit Plan. Five significant risks and key audit matters were identified that impacted the audit of the financial statements:

1. The risk of fraud in revenue and expenditure recognition (fraud risk);
2. Misstatement due to fraud or error (fraud risk);
3. Valuation and existence of property, plant and equipment, including heritage and infrastructure assets;
4. Valuation of Public Private Partnership 'PPP' /Design, Build, Finance, Maintain ('DBFM') liabilities; and
5. The SAP Outage

Three inherent risks impacting the audit of the financial statements were identified, relating to opening balances, the valuation of pensions assets and liabilities and the Equal Pay provision and associated transactions. Our findings are summarised in Section 3 of this report.

Wider scope and best value

Under the Code of Audit Practice, our responsibilities extend beyond the audit of the financial statements. Due to the nature of the Council, our wider scope work requires significant allocation of resources in the audit. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- The Council's arrangements to secure sound financial management.
- The regard shown to financial sustainability.
- Clarity of plans to implement the vision, strategy and priorities of the Council, and the effectiveness of governance arrangements for delivery.
- The use of resources to improve outcomes.

Our Annual Audit Plan identified three areas of audit focus in relation to wider scope audit:

- The Council's ability to develop sustainable and achievable medium term financial plans;
- Information and Communication Technology ('ICT') Governance; and
- Climate change reporting.

Our annual assessment of the Council's arrangements to secure best value is integrated within our wider scope annual audit work.

As part of our responsibilities under the Code of Audit Practice, we prepare a separate report on annual thematic topics prescribed by the Accounts Commission. For 2022/23, the Accounts Commission directed auditors to report on the effectiveness of the leadership of the development of strategic priorities.

Our wider scope and Best Value findings are summarised in Section 4 of this report.

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3. Financial statements

Introduction

The annual financial statements allow the Council and its Group to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

Compliance with regulations

The financial statements were prepared materially in accordance with the CIPFA Code of Practice on Local Authority Accounting 2022/23.

The draft financial statements were submitted for audit by 30 June 2023, in line with requirements. We were satisfied that the Council made the financial statements available for public inspection in accordance with Regulation 9 of The Local Authority Accounts (Scotland) Regulations 2014.

Financial statement timetable

The Group and Council financial statement audit for 2021/22 was completed in April 2023, seven months after the historic statutory deadline of 30 September. As a result, the 2022/23 planning work, including our handover with the predecessor auditor, was delayed and commenced from March 2023.

Working outside of a 'standard' local government audit timescale creates inefficiencies for management and the audit process. These include key planning matters, such as group reporting requirements being shared to component auditors, discussions and agreements on significant and unusual transactions occurring in the year, and challenge around yearend estimates and judgements, all occurring after actions have already been taken.

Both our provisional and final Annual Audit Plan set out timetables with the intention to complete the 2022/23 audit in December 2023. While both the audit and finance teams worked together to deliver this timetable, the ability to deliver this was impacted by a number of factors including:

- The delayed completion of the audits for 2021/22 of City Building (Glasgow) LLP and City Building (Contracts) LLP due to whistleblowing investigations, the subsequent delayed commencement of the 2022/23 audits and resulting impact on our ability to conclude on this area of the group work.
- A planned outage of the Group and Council's finance system in October 2023 to enable system and server improvements has impacted the Council finance team's capacity as they accelerated the budget monitoring process before the outage.
- Identification of a large number of technical accounting matters, some of which have resulted in material current and prior year adjustments including heritage assets, asset valuations, sale and leaseback accounting and pension asset recognition.
- Recognising, the financial challenges facing the Council, effective budgeting and financial monitoring remain critically important and therefore creates priority challenges for the Council.

Initial audits are additionally more resource intensive for both audit and finance teams with approximately 30% additional time required adding an additional layer of pressure to the above.

Looking ahead to 2023/24, we recognise that the achievement of the 30 September timeline for completion of audited financial statements will not be immediately achievable for the Council following five consecutive years of delayed reporting. We anticipate agreeing a multi-year plan to return to this timetable with management, subject to continued review through our audit appointment. Any plan needs to address the underlying challenges behind recurring delays, including firstly agreement on the delivery of actions agreed through our management recommendations in this report.

Recommendation 1:

Management should ensure that a realistic timetable for both financial statement production and the audit are developed. This should ensure that there is sufficient capacity within the finance team to support this alongside business as usual activities. **(Grade 1)**

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other audit risks identified in our Annual Audit Plan.

Financial statement working papers

As part of our oversight of the Group and Council's financial reporting process we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statement preparation and audit process were significantly impacted by the matters noted above. The majority of initial working papers to support the unaudited financial statements were provided in line with the timetable agreed in the context of the position following the 2021/22 audit, however we recognise this would not meet the timetable required for traditional September audit completion.

The expected challenges in year one of an audit relating to understanding requirements expected from new auditors had an impact on our timetable. We will work with management to ensure that audit requirements for individual sections are fully understood as part of our 2022/23 audit debrief. This will include ensuring the sufficiency of quality assurance arrangements for working papers and ensuring technical accounting papers being ready in line with the financial statements.

Recommendation 2:

Management should ensure that the 2023/24 financial statement working papers and technical accounting papers reflect the additional requirements for the 2022/23 audit and ensure that these are provided in line with the financial statements timetable. **(Grade 1)**

As part of the audit process, we worked with the finance team to make enhancements to the presentation of the financial statements. We will continue to discuss good practice as part of our 2022/23 debrief and ongoing engagement with the finance team.

We noted that a disclosure checklist was not completed by the Council. While we did not identify any material areas of non-compliance with Code requirements, we did identify a number of areas for enhancements to disclosures.

Recommendation 3:

Management should ensure that the Code amendments are fully reflected, ideally through completion of a disclosure checklist to ensure the financial statements remain Code compliant on an annual basis. **(Grade 2)**

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Audit outcomes

We identified 20 adjustments arising from the audit which have been reflected within the 2022/23 financial statements, and a further 6 which impact the prior year financial statements. There was 43 unadjusted audit differences, including 8 relating to the prior year financial statements. We also identified 12 disclosure and other differences. Our overall audit opinion is summarised on pages 15-16.

We made 35 recommendations as a result of the annual audit, of which 19 were graded as high priority (Grade 1) and 16 graded moderate priority (Grade 2).These, together with management responses, are included within the action plan in Appendix E.

The recommendations cover a range of areas including in relation to:

- The robustness of the valuation process adopted by the Council and their valuers, City Property;
- The accounting for property, plant and equipment including the quality of information held within the asset register and the functionality of the asset register; and
- The checks performed by the Council to ensure the ongoing existence of Council assets including heritage assets and plant and equipment; and
- Retention of supporting evidence for financial statement transactions and balances within a shared location.

The above represents a significant number of recommendations and adjustments for a public sector body. Management must ensure a detailed action plan is developed to respond to both the audit recommendations and adjustments identified.

In order to appropriately conclude, we have completed a total of 8 consultations with our professional practice team to confirm the appropriateness of the prior period adjustments, as well as a wider "stand back" consideration of further work required to verify the material accuracy of accounting records in prior periods.

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Group audit

The Council prepares its annual report and financial statements on a group basis. We considered the arrangements in respect of each of the Council's group undertakings at the planning stage and reviewed throughout the audit.

Our audit strategy for performing an audit with multiple components is risk based. We identify components as:

- Significant components: A component is significant when it is likely to include risks of material misstatement of the group because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.
- For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below in Exhibit 2.

Exhibit 2: Group scoping

Full scope: components where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific Scope: components where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size or risk profile of those accounts.

Review Scope: components where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Group coverage

We considered the arrangements in respect of each of the Council's group undertakings throughout the audit. The only significant component by size is the Council, which accounts for approximately 93% of the consolidated gross expenditure.

Our Annual Audit Plan identified the two City Building entities as significant by risk. However, significant delays in completion of the 2021/22 audits of these entities resulted in the 2022/23 audits not yet commencing. Through discussions with management, we agreed that we will therefore modify our independent auditor's report in respect of group balances of these entities, limiting the scope of our audit opinion issued in 2022/23.

Nine components were identified as specific scope due to specific material balances and three were identified as review scope.

The Glasgow City Integration Joint Board (IJB) is identified as a joint venture and consolidated in accordance with the requirements of the Accounting Code.

We have been appointed as auditor to Glasgow City Integration Joint Board and have reported separately on our audit of that entity.

We have set out the specific assigned scopes for each component within Appendix J. The allocation of scope means that the following coverage is obtained as set out in Exhibit 3 below.

Exhibit 3: Group scope coverage per 2022/23 unaudited group financial statements

Scope	Expenditure on provision of Services (percentage coverage)	Total assets (percentage coverage)
Full scope (audited by EY)	93.5%	71%
Excluded from group scope due to opinion modification	1.9%	1%
Specific scope	4.3%	27.7%
Review scope	0.3%	0.3%
Total	100%	100%

Audit approach

We adopted a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. We adopted our audit methodology as required in response to a number of matters outlined in page 44, ISA 315 audit risk considerations.

During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement.

Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting. Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence to express an opinion on the Group and Council financial statements.
- Reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable.
- Ensuring that reporting to the Finance, Audit and Scrutiny Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.
- We rigorously maintain auditor independence (refer to Appendix B).

Key audit matters

Under the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

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Exhibit 4: Our audit opinion

Element of our opinion	Basis of our opinion	Conclusions
Financial statements ▶ Truth and fairness of the state of affairs of the Council and its Group at 31 March 2023 and its expenditure and income for the year then ended. ▶ Financial statements in accordance with the relevant financial reporting framework and relevant legislation.	▶ We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. ▶ We are satisfied that accounting policies are appropriate and estimates are reasonable. ▶ We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	We have issued a qualified audit opinion on the 2022/23 financial statements for the Council and its Group in respect of the two City Building group entities.
Going concern ▶ We are required to conclude on the appropriateness of the use of the going concern basis of accounting.	▶ We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. ▶ Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.	In accordance with the work reported on page 43, we have not identified any material uncertainties.
Other information ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit.	▶ The Executive Director of Finance is responsible for other information included in the financial statements. ▶ We conduct a range of substantive procedures on the financial statements and our conclusion draws upon review of committee and Council minutes and papers, regular discussions with management, our understanding of the Council and its Group and the wider sector.	We are satisfied that the other information meets the core requirements set out in the Code of Practice on Local Authority Accounting except for the matter in respect of the City Building entities.

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Exhibit 4: Our audit opinion (continued)

Element of our opinion	Basis of our opinion	Conclusions
Matters prescribed by the Accounts Commission ► Audited part of remuneration report has been properly prepared. ► Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared.	**Our procedures include:** ► Reviewing the content of narrative disclosures to information known to us. ► Our assessment of the Annual Governance Statement against the requirements of the CIPFA Delivering Good Governance Code.	We have no matters to report other than the matter raised in respect of the City Building entities.
Matters on which we are required to report by exception	**We are required to report on whether:** ► Adequate accounting records have been kept. ► Financial statements and the audited part of the remuneration report are not in agreement with the accounting records. ► We have not received the information or explanations we require.	We have no matters to report.

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Our response to significant and fraud audit risks

1. Risk of fraud in revenue and expenditure recognition (Key audit matter)

What is the risk?

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

We consider there to be a specific risk around income and expenditure recognition through incorrect income and expenditure cut-off recognition to alter the Council's financial position around the financial year end, incorrect recognition applied to grant income with performance conditions and Incorrect capitalisation of revenue expenditure. We therefore consider this risk to be most prevalent in the following income and expenditure balances:

- Other grants and capital grants:
  - **Council:** £0.7 billion and prior year (PY) comparator: £0.8 billion
  - **Group:** £0.7 billion and prior year (PY) comparator: £0.8 billion
- Other income:
  - **Council:** £0.8 billion and PY comparator: £0.7 billion;
  - **Group:** £0.8 billion and PY comparator: £0.7 billion;
- Other expenditure:
  - **Council:** £2 billion and PY comparator: £2.2 billion
  - Group: £2 billion and PY comparator: £2.2 billion
- Related creditor balances:
  - **Council:** £0.5 billion and PY comparator: £0.7 billion;
  - **Group:** £0.5 billion and PY comparator: £0.7 billion
- Related debtor balances:
  - **Council**: £0.3 billion and PY comparator: £0.4 billion.
  - **Group**: £0.3 billion and PY comparator: £0.4 billion.

Refer to accounting policies with Note 1 pages 23-37 and notes 5, 9, 13, 23 and 25 of the Council Financial Statements and accounting polices within note 1 of the Group financial statements pages 92-95 and notes 3 and 9.

In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account. Accordingly, we have rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. With regards to expenditure we have rebutted the risk of improper recognition of payroll costs and depreciation.

What did we do?

We undertake specific, additional procedures for income and expenditure streams where we identify a fraud risk. For 2022/23 our work included:

- Inquiring with management and those charged with governance about risks of fraud and the controls put in place to address those risks.
- Review and challenge of management for evidence of bias on accounting estimates.
- Reviewing and testing additional revenue and expenditure cut-off at the period end date.

- Conducting additional substantive testing over grant income to ensure it satisfies recognition criteria tests.
- Conduct additional substantive testing of related income and expenditure transactions where we have identified a significant risk.
- Assessing and challenging manual adjustments / journal entries by management around the year end for evidence of management bias and evaluation of business rationale and supporting evidence.
- Testing material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified.

Our findings

Our procedures in respect of income and expenditure recognition identified a high number of errors including:

- Expenditure recognised in 2022/23 which related to prior years which had not been accrued for totalling £2.1 million;
- Expenditure relating to 2022/23 which had not been accrued for totalling £0.9 million;
- Internal recharges which had not been properly eliminated resulting an overstatement of income and expenditure of £4.6 million;
- capital grant income which had been incorrectly recognised when no eligible activity had yet taken place in respect of this grant. This resulted in a reduction in grant income of £0.465 million; and
- Common good rental income which had been omitted from prior year financial statements of £160,000.

Recommendation 4:

Management should ensure that a lessons learned review is performed of the income and expenditure errors identified through the 2022/23 audit to identify improvements and ensure they do not occur in future years. **(Grade 2)**

Additional audit procedures: Non-significant risk areas

- **Council Tax Income**

We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder systems.

- **Non-Domestic Rates**

We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's Non Domestic Rates grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

- **Non ring-fenced grant income**

We substantively tested these balances to grant confirmation letters from third parties.

- **Depreciation, amortisation & impairment:**

We tested these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

We identified two errors in respect of accounting for depreciation:

- The Council adopts a policy of not charging for depreciation or amortisation in the year of an asset's purchase. In accordance with the accounting Code, depreciation should be charged over an asset's useful life, starting from when the asset is available for use. This resulted in an estimated understatement of depreciation of £2.4 million.
- The Council's valuers assess buildings useful lives as part of asset valuations performed. These updated useful life assessments are not then utilised to update the Council's fixed asset register and therefore results in depreciation charged not being based on the latest useful life assessment. This resulted in an estimated overstatement of depreciation of £4.9 million.

Recommendation 5:

The Council should ensure that depreciation is accounted for in line with Code requirements. **(Grade 1)**

- **Pension costs:**

We have outlined our consideration of the valuation of pension assets and liabilities held by the Group and Council on page 37.

In respect of all pension transactions impacting the Comprehensive Income and Expenditure Statement we agreed these journals to the underlying IAS 19 report prepared by the Group and Council's actuary.

We did, however, note from our review of the IAS19 actuarial valuation report that the Council has unfunded pension obligations at 31 March 2023 totalling £276.3 million (Group: £283.038 million). We agreed with management that these should be recognised separately on the balance sheet as an obligation on the basis that there are no plan assets to meet the pension liabilities. An adjustment has therefore been made within Appendix F to separately identify these liabilities.

- **Employee expenses**

We established expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

There were no issues identified through the work that has been performed in relation to employee expenses.

Our conclusions

- Our testing has resulted in a high number of adjustments to misstatements relating to revenue and expenditure recognition primarily in respect of depreciation and 'gross up' of income and expenditure where internal recharges and intercompany transactions were not properly eliminated.
    - Depreciation differences were identified over hundreds of assets, with a gross impact of approximately £6 million. There were no particular patterns to the differences identified, subsequently the resulting net impact of the difference identified was £0.6 million.
    - Internal recharge and inter-company transaction differences were identified, with a total impact of grossing up income and expenditure by £4.6 million.
    - Further adjustments were identified in respect of the timing of income and expenditure recognition. The net impact of these adjustments was £1.2 million.
- There was no disagreement during the course of the audit over the correct accounting treatment or disclosure and we encountered no significant difficulties in the audit.

2. Risk of misstatement due to fraud or error (Key audit matter)

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement and consider this risk to be relevant to the Group and the Council as a single entity.

Risk of fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Bank accounts

The Council holds a large number of bank accounts including accounts which they hold on behalf of schools, group entities and social work clients. The reconciliation arrangements do not currently identify active bank accounts or, in many cases, the purpose of the account.

Recommendation 6:

The Council should continue to take steps to mitigate the risk of fraud from inactive accounts. **(Grade 2)**

Testing on journal entries

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions.

In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals transferring funds between useable reserves and restricted or separated accounts;
- Evaluating the business rationale for significant and unusual transactions; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Recommendation 7:

During our review of the financial controls processes, we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation before posting. A separate exercise is performed as part of period end procedures to review journal postings over £50,000. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review and authorise journals. **(Grade 1)**

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We outlined on page 82 the future changes to financial and other related systems the Council will undertake. New systems should have fully integrated control functions to ensure segregation of duties, specifically approval of journals posted by management by a separate individual. In the interim period , management should ensure risk based arrangements are in place to mitigate the more material risks associated with the absence of approvals.

Judgements and estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the Group and Council's audit from 2020/21. Risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, including the valuation of local government pension assets and liabilities, considered on page 37 of this report; and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 23 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process- estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

Accounting policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Council to be appropriate with the exception of depreciation and heritage asset accounting policies where amendments have been identified as noted on pages 23 to 31.

Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. However, we have identified areas for improvement through more robust journal review and approval procedures. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

3. Valuation of Property, Plant and Equipment, including heritage and infrastructure assets (Key audit matter)

Financial statement impact

Within the 2022/23 financial statements, the Council held £3.87 billion of property, plant and equipment with £2.8 billion relating to land and buildings, £0.8 billion relating to infrastructure assets and £93 million of vehicles, plant and equipment. Additions totalled £348 million. The Council additionally holds £1.42 billion of heritage assets, including £1.4 billion in respect of museums collections.

Refer to accounting policies in Note 1 pages 23-37 and note 19 and 20 of the Council financial statements.

Within the 2022/23 consolidated financial statements, the Group held £4.05 billion of property, plant and equipment with £3 billion relating to land and buildings, £0.8 billion relating to infrastructure assets and £100 million relation to vehicles, plant and equipment. Additions totalled £350 million.

The Group held £238 million in respect of investment property.

Refer to accounting policies in Note 1 pages 92-95 and note 13 and 14 of the Group Financial Statements.

What is the risk?

Property, Plant and Equipment and Investment Property

The fair value of property, plant and equipment (PPE) and investment property represent significant balances in the Group and Council financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engages valuers within their subsidiary, City Property (Glasgow) Limited Liability Partnership to value the Council's estate in line with their 5-year programme based on service areas.

In 2021/22, the Council initially revalued 60% of their estate, however following audit challenge, a further £1 billion of assets were revalued resulting in approximately 97% of land and buildings being subject to valuation in 2021/22.

In 2022/23, approximately 60% of PPE is not currently due to be valued however due to the current building cost inflation, the Council has performed an additional sample of valuations to perform their assessment of whether the non-revalued population remains appropriately valued.

The Council additionally has a significant capital programme with judgement being applied to the valuation of additions and split between revenue and capital expenditure.

Our risk assessment has taken into account the external environment, the nature of Council assets, discussions with Council valuers and review of predecessor auditor files. We consider there to be an elevated risk of valuations being misstated due to these factors.

We consider this risk to be relevant to the Group and the Council as a single entity.

Heritage assets

In respect of heritage assets, the Council adopts an insurance valuation for their museum collections, with management providing insurers with the asset list and valuations. Fine art is held in collections across the Council's gallery and museum estate. Given the extensive collection of art, there is a risk in respect of the completeness and existence of these assets as well as the judgements made in determining the value.

Infrastructure assets

In 2021/22, local government auditors raised concerns that Accounting Code requirements were not being adhered to in respect of subsequent expenditure on infrastructure assets.

Further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, councils often capitalise schemes of expenditure and depreciate over an estimated economic life.

Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

The Accounting Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. However, largely due to data limitations, it is believed that most local authorities have been unable to comply with the requirement. Due to the information deficits in respect of infrastructure assets, further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date. To date, CIPFA/LASAAC has been unable to find a solution that will both satisfy audit concerns and the requirement for high quality financial reporting.

The Scottish Government however agreed to provide a temporary statutory override whilst a permanent solution is developed within the Accounting Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

The override was issued on 29 August 2022 and has two areas:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent amendment shall be made to the carrying amount with respect to that part.

Local authorities can choose to adopt either or both of the statutory overrides. The Council adopted both overrides in 2021/22 and in 2022/23. The exemption does not remove the requirement for the Council to consider the underlying existence and useful lives of assets and we therefore considered the Council's approach as part of our audit work.

What did we do

Our work focused on the following areas:

Property, Plant and Equipment and Investment Property

- reviewed and appraised the work performed by the Group and Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- involved EY internal specialists to challenge the work performed by the Council's valuers, where appropriate;
- assessed any changes to useful economic lives;
- tested accounting entries were correctly processed in the financial statements;
- sample tested transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress;
- gained an understanding of the level and nature of capital spend in year and perform testing on fixed asset additions ensuring an appropriate split between revenue and capital expenditure;
- reviewed operating expenditure for evidence of capital additions omissions;

Heritage Assets

- obtained the heritage asset insurance valuation as at 31 March 2023 assessing the information provided by the Council and any verification performed by the brokers and insurers;
- where insurance valuations have not been updated, obtained the last asset valuation for a sample of heritage assets;
- assessed the key judgements and assumptions used by management and the insurer to determine an appropriate valuation;
- assessed the completeness of records held in respect of heritage assets; and
- obtained a full schedule of heritage assets and verify to the underlying physical asset.

Infrastructure Assets

- tested a sample of infrastructure assets per the asset register to determine their existence as at 31 March 2023;
- reviewed the depreciation policy for infrastructure assets and ensure it remains appropriate and in line with CIPFA guidance; and
- assessed whether infrastructure additions for 2022/23 have been recorded in sufficient detail to enable verification of the underlying physical asset.

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Our findings

Property, Plant and Equipment and Investment Property

In 2022/23, approximately 60% of PPE is not currently due to be valued however due to the current building cost inflation, the Council has performed an additional sample of valuations to undertake their assessment of whether the non-revalued population remains appropriately valued. The Council engages valuers from within the subsidiary, City Property, to value the Council's estate in line with their 5-year programme based on service areas.

During the final audit visit, we requested a sample of valuations to conduct our own testing, and selected a number to be reviewed by our valuation specialists.

Due to the scale of the Council's estate, valuations are performed throughout the financial year with a final check at the balance sheet date to ensure the value remains appropriate. Despite this check at the balance sheet date being performed, we noted material differences in valuations due to forecast valuation data being used when more up-to-date information was available.

We further noted that one instance where an extension to a building completed in year was not reflected in the valuation of the asset.

Recommendation 8:

The Group and Council should ensure that valuations are properly assessed at the balance sheet date to reflect all information available including the latest market information. Management should ensure that City Property have details of all capital additions to assets due to be revalued in year to ensure they can be reflected in valuations. **(Grade 2)**

City Property have a detailed valuation template in place to document the valuation calculations and judgements applied in reaching valuations. We identified a number of inconsistencies in how this template was completed including omissions of information or old data from previous valuations not being updated. We also noted inconsistencies in judgements applied by valuers within City Property. While individual valuers should apply their own professional judgement, checks should be performed to ensure some level of consistency in approach. Both of these matters have led to some challenges where valuers have now left City Property.

Recommendation 9:

City property should implement a more formal, robust peer and supervisor review process, including but not limited to pre-emptively identifying the issues raised in this report. Management should also satisfy itself these checks have been completed in line with its responsibilities around use of specialists. **(Grade 1)**

Our testing identified a large number of audit differences within valuations, including:

- Land values for school playing fields being valued based on actual size rather than a modern equivalent size resulting in a £5.4 million overstatement;
- Land values for sports centres on community land being undervalued resulting in an understatement of £2.37 million
- Surplus assets being overvalued by £0.8 million due to latest available information not being used for the valuation.

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In respect of the Group, SEC Limited hold material assets. SEC prepare their own financial statements under FRS 102 and value their estate under the cost model. A consolidation adjustment is therefore required to bring the valuation of the estate in line with the Group's accounting policy. We identified the followings issues in respect of the treatment of this adjustment:

- The valuation movement arising from this adjustment was incorrectly posted to SEC expenditure on cost of services rather than being shown as revaluation gain/loss through other comprehensive income. This has resulted in a current year adjustment of £35 million.
- The SEC estate had not been subject to formal valuation since 2018/19 and had been omitted from management's consideration of assets not revalued in the prior year. We challenged management on whether the material movement in the value related to prior years. This demonstrated that the asset was materially undervalued in 2021/22 resulting in a £33 million prior period adjustment.
- We additionally noted differences in the valuations performed for both years due to forecast data rather than actual data being used to calculate the valuations This resulted in a £4 million increase to the prior year valuation and a £11 million increase to the 2022/23 valuation.

The external environment has created greater fluctuations in asset valuations in recent years resulting in a greater need for Group and Council to perform a thorough and detailed assessment of assets not subject to valuation through the standard asset valuation programme to ensure there are no material movements in valuations.

Recommendation 10:

Management should ensure that Group assets are included as part of the review of the rolling asset valuation programme and assets not subject to valuation. **(Grade 2)**

Heritage assets

The accounting code recognises the inherent challenges in respect of holding complete records and valuing heritage assets. As a result, the Code permits some flexibility in how heritage assets are accounted for and disclosed within the financial statements.

The Council's heritage asset collection is extensive and of a unique scale and complexity. The Council's heritage assets' were subject to an insurance policy valuation of between £1.4 and £1.7 billion. The Council historically recognised the collection at £1.4 billion, being the lower end of this range, on their balance sheet. The valuation method adopted by the Council carried specific challenges due to the nature of the valuation performed. The insurance valuation is performed at a site level which means that existence of individual assets was unable to be performed and creates further challenges in demonstrating the completeness of the valuation assessment.

Following extensive review by the audit team, including consultation with our internal technical reporting experts, a prior period adjustment of £300 million was identified. This adjustment removes the value of assets which, while valued using insurance valuations, cannot be sufficiently agreed to specific records by asset and which cannot be valued to a sufficiently accurate range.

This reduces the value to £1.1 billion which represents the valuation of assets which are recorded within the Council's museum records system. This valuation can be directly and individually tied to specific records and values.

In addition to the prior period adjustment, enhanced disclosures were added to the financial statements recognising the potential range of valuations for these unique heritage assets which are not reflected on the balance sheet.

Recommendation 11:

Existence testing of heritage assets is performed by museum staff following an internal audit recommendation however this is based on a sample of 10 items. Given the volume of the collection, we recommend that this work is extended to a higher number and performed to align with the Council's year end. Specific confirmation of the exercise performed should be provided to central finance to consider as part of the financial statement working papers. **(Grade 2)**

Heritage assets hold significant value both from a financial and non-financial perspective, not just to the Council but to wider stakeholders across Glasgow, Scotland and beyond. Over the last 30 years, significant work has been undertaken to modernise records and ensure consistent records are held for the extensive collection managed by the Council through ALEO, Glasgow Life.

The volume of work still required to fully catalogue the collections is significant.

Recommendation 12:

Recognising the significance of the collections and the significant work required to catalogue in a consistent manner, management should have a clear timetable in place for completion of the cataloguing projects which takes into account both resources available and the risks associated with not having a complete collection catalogue. This plan should give due consideration to what level of detail should be held, the costs associated with the project and how and when regular updates to members should be provided. **(Grade 1)**

Infrastructure assets

Taking into account the statutory override, significant challenges were encountered in our work in respect of infrastructure assets due to the nature of records held within the fixed asset register. A substantial exercise was undertaken by the finance team to provide supporting evidence to verify the historic and continued existence of the £818 million of infrastructure assets held by the Council.

Our work noted one error in respect of the treatment of land associated with infrastructure assets which was incorrectly being depreciated. This resulted in an unadjusted reclassification difference of £5.2 million and a reversal of depreciation of £0.4 million.

The statutory override in place for infrastructure assets was scheduled to end on 31 March 2024, however the Scottish Government has now consulted on extending the override to 31 March 2025. The extension continues to carry an expectation that councils will continue to address information deficits to ensure timely adoption of future Code requirements once a more permanent solution is delivered.

Recommendation 13:

While there remains some uncertainty around the future accounting requirements for infrastructure assets, the Council should ensure that in line with the Scottish Government request, work is undertaken to address information deficits to ensure timely adoption of the permanent solution. **(Grade 1)**

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Vehicles, Plant, Furniture and Equipment

The Council holds £92.9 million of vehicles, plant, furniture and equipment with the material element of this balance relating to IT related equipment. In line with our observations in respect of infrastructure assets, challenges were encountered in identifying underlying assets from the records held within the fixed asset register. Further challenges were encountered with some records for IT related assets being held by the Council's IT provider. Due to difficulties encountered in obtaining sufficient evidence to support the ongoing existence of equipment, an impairment of £1.5 million was identified.

We identified the following from our procedures:

- Misclassification of a recycling facility which had subsequently been disposed of resulting in an adjustment of £1.5 million.
- Capitalisation of low value items including moveable IT accessories which are challenging to prove ongoing existence and are likely to have limited useful lives.
- No existence testing was performed by management and similarly, an impairment assessment had not been performed.

Recommendation 14:

The Council should ensure that:

- Asset owners should be assigned and reminded of their responsibilities to maintain detailed supporting records for council assets;
- An annual sample check of existence of equipment is performed;
- An impairment assessment is performed to identify assets which may no longer be in use or may be damaged/lost; and
- A review of the policy for capitalising equipment is performed to consider the approach for low value moveable equipment. **(Grade 1)**

Reinforced Autoclaves Aerated Concrete (RAAC)

The Council has followed the decision tree guidance issued by the Department of Education as part of its assessment of whether RAAC exists within Council assets.

In respect of the school estate, only one school was identified as containing RAAC, Whitehill Secondary which was discovered in 2021 and has been mitigated, managed and monitored. No impairment in respect of this asset has been made, recognising that the asset remains in use. At the time of writing, 15 assets remain to be surveyed in respect of the Council's remaining estate (excluding culture, leisure and education).

In respect of the culture and leisure estate, RAAC has been identified in 6 properties. To date the following sites remain closed due to RAAC being identified:

- Glasgow Club Whitehill;
- Glasgow Club Drumchapel Pool; and
- Cardonald library.

Management has performed an impairment assessment for these assets and included additional financial statement disclosures in this area.

Management has made representations that no other assets within Glasgow City have been impacted within the letter of representation that we require as part of our finalisation of the audit.

We continued to keep this matter under review up to and including our subsequent events procedures.

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Recommendation 15:

The Council should ensure complete surveys of their estate as a matter of urgency to ensure all buildings impacted by RAAC are identified. The results of these surveys should then be factored into any valuation or impairment assessment performed to inform the 2023/24 financial statements with ongoing monitoring after the balance sheet date. **(Grade 1)**

Common Good Assets

In May 2023, the Local Authority Accounting Scotland Accounts Advisory Committee (LASAAC) issued updated guidance on accounting for Common Good Assets. LASAAC note that there is a requirement to maintain asset registers for all Common Good assets under the Community Empowerment Act 2015. However, previous assessments by LASAAC have noted that problems may have arisen over time as a likely consequence of:

- the historic nature of the Common Good which may encompass assets which are more than 100 years old;
- the compound effect of successive local government reorganisations; and
- no requirement for local authorities in Scotland to maintain formal asset registers until 1994.

The Council maintains a Common Good Asset register on their website in line the legislative requirements however to date only 14 core assets have been identified with 8 investment assets also noted.

An ongoing exercise is underway to review title deeds to ensure the Common Good register is materially complete. Significant work is still underway in this area with limited additions to the common good register identified to date.

While regular updates on the Common Good fund financial performance are reported to the Finance and Audit Scrutiny Committee, we note that updates on the steps taken by the Council to comply with the Community Empowerment Act requirements have not been provided.

We further note that the Common Good Fund disclosed within the financial statements does not include all assets identified as being Common Good. This is in line with the Council's common good fund policy whereby the Council continues to use and account for common good assets in an operational capacity. All income and expenditure associated with these assets is charged recognised within the Council's financial statements and only if a surplus is made in respect of these assets is a transfer made to the Common Good Fund.

This approach was last considered by the Finance and Audit Scrutiny Committee in February 2019.

Recommendation 16:

Management should review the Common Good fund reporting to ensure that:

- Updates are presented on a frequent basis to note progress in maintaining an accurate and complete common good fund asset register
- The Council's policy for accounting for Common Good fund assets is reviewed in conjunction with both legislative requirements and the latest LASAAC guidance published in 2023. **(Grade 2)**

Rights and obligations

We identified one asset, City Building Training Academy whereby the Council were unable to demonstrate legal ownership. This related to an asset whereby the Council and related group entities had agreed arrangements for a

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new building to be constructed by the Council and a revised lease arrangement to put in place.

While Committee approval was obtained, the Group has failed to ensure that the legal agreements have been put in place to match the nature of the arrangements in place. There is therefore now uncertainty regarding the legal ownership of the building.

Recommendation 17:

The Council Group should ensure that the legal agreements in respect of this arrangement are corrected urgently. The Council should perform a lessons learned exercise to identify any other assets where the appropriate legal arrangement have been put in place. **(Grade 2)**

Our conclusions

- We have identified a number of material misstatements in the current and prior year valuation of property, plant and equipment in Appendix F, and we have identified 11 recommendations for future years.
- While there was no disagreement during the course of the audit over any accounting treatment, we did experience significant delays and challenges in obtaining appropriate audit evidence for PPE balances including infrastructure assets and equipment.

4. Valuation of PFI/PPP Liabilities (Key audit matter)

What is the risk?

The value of PPP and DBFM liabilities represent significant balances in the Council's financial statements with the Council holding 2 different contracts, covering 31 individual schools. Accounting for these contracts includes a number of complexities ensuring the financial models reflect any contract amendments and inflationary uplifts.

Within the 2022/23 financial statements, the Council holds £496 million in respect of PFI/PPP contract liabilities (2021/22: £541 million). Refer to accounting policy in Note 1 pages 23-37 and note 11 of the Financial Statements.

What did we do?

Our procedures included:

- reviewing the contractual agreements for each PFI/PPP asset and confirm any contract amendments have been appropriately reflected within the liability valuation;
- ensuring that accounting models have been appropriately and accurately updated to reflect inflationary uplifts and actual unitary charge payments;
- testing accounting entries have been correctly processed in the financial statements;
- involving EY internal specialists to review and challenge the historic accounting models for each PFI/PPP contract; and
- reviewing financial statement disclosures to ensure commitments are appropriately disclosed.

Our findings

In respect of the Council's PPP scheme, the scheme is now in its 24th year of operation and therefore understandably, individuals' involved in the establishment of the original models and contract are no longer in post. The responsible individual for reviewing the PPP accounting entries has changed twice in recent years. This has resulted in a loss of knowledge of how the contract should operate and how the models are constructed. Significant delays were encountered in receiving all information in respect of the PPP including original contracts and operator models.

Recommendation 18:

The Council should ensure that all documentation to support financial statement balances including relevant contracts and leases are retained in a central location to ensure they are readily available both for new finance team members and to support audit requests. **(Grade 1)**

Our review of the models for the PPP scheme noted some inconsistencies between the accounting model and the original operator models resulting in an audit difference of £2.5 million in 2021/22 and £2.3 million in 2022/23.

Service concession flexibility

In March 2023, the Council elected to make use of the service concessions flexibility made available by the Cabinet Secretary in October 2020. Local authority Directors of Finance and COSLA liaised directly with the Scottish Government to clarify the practicalities of the flexibilities. The options in respect of flexibilities have been reported to Council throughout the year, as guidance has developed.

As a result of the latest statutory guidance in respect of service contract concessions, the Council elected to extend its PPP contract debt repayment periods to reflect asset, rather than contract, lives. In adopting this approach, councils could choose to realign these costs either by the equal instalment of principal method or the annuity method.

The Council adopted an annuity method for the repayment of debt over the life of the asset which are now determined to be 40 years. Adopting this approach has resulted in a one-off gain of £103.9 million and an in year saving of £5.6 million. The gain from this arrangement was used to create the Budget Support Fund, as explained in more detail on page 50.

We worked with the Council to ensure appropriate financial statement disclosures were in place with respect of planned and actual use of financial flexibilities.

Our conclusions

- We engaged our specialists to support our procedures, recognising that the models had not been subject to detailed specialist review before.
- Based upon the audit procedures performed, we have concluded that PPP/PFI liabilities have been appropriately valued in accordance the CIPFA Code of Practice on Local Authority Accounting in the UK 2022/23 and IFRIC 12 Service Concession arrangements.

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SAP Outage

Audit requirements

In January 2023, an error in respect of an upgrade to the server supporting the SAP system resulted in a significant outage of the Council's SAP system with system access restored in March 2023. The Council implemented business continuity procedures during the outage to ensure urgent payments could continue to be made. During the outage period, there was a number of manual procedures performed, including payments to staff and suppliers.

In addition, we noted that internal audit qualified the 2021/22 internal audit opinion due to concerns around ICT security and ICT contract management arrangements and the pace at which remediation actions were taken forward.

Given the significant impact of the outage, this risk is pervasive across the financial statements. In particular, there are risks that:

- data held within the system is not complete or accurate;
- due to the increase in manual processes and subsequent backlog activity to process, there is an increased risk of both fraud and error; and
- cut-off is not appropriate due to the delays in processing caused by the system outage.

We consider this risk to be relevant to the Group and Council as a single entity.

During the audit we completed the following procedures:

- assessed the work performed by the Council to address previous weaknesses identified in respect of their IT control environment, including internal audit's consideration;
- reviewed the root cause analysis reports from the Council's system provider to identify key risk areas;
- perform specific and additional transaction testing during the outage period to ensure the accuracy and validity of transactions;
- performed extended testing around the Council's year end date to ensure the completeness of transactions, including starters and leavers testing within payroll; and
- assessed the completeness and accuracy of data held within the system through review of Council and system provider reconciliations and checks.

Our findings

In line with previous internal audit concerns, the SAP system outage was impacted by fundamental weaknesses in controls pertaining to backups and recovery of data. These weaknesses impacted the Council and their IT provider's ability to restore the system in a timely manner.

Recommendation 19:

The Council should ensure that frequent testing of back-ups is performed to ensure that data can be recovered in a timely manner and that data is both complete and accurate. **(Grade 1)**

Our detailed testing noted that appropriate interim arrangements were implemented during the system outage. Our detailed extended testing did not identify errors arising due to the outage or resulting processing delays.

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SAP Outage conclusion

Our conclusions

- The additional procedures that we designed to address the specific risks in relation to the financial statements were performed with no errors arising.
- We drew upon the work performed by the Council's internal auditor.
- Our IT specialists reviewed the lessons learned reports from the incident and noted the specific delays in restoring the system, arising due to fundamental weaknesses in controls pertaining to backups and recovery of data.

Opening balances

Audit requirements

As 2022/23 is the first year of our audit appointment, we were required to complete additional procedures in line with Auditing standard ISA (UK) 510. There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.

Our audit work focused on the following areas of judgement:

- agreeing the opening balance sheet position to the underlying financial records;
- review of the predecessor auditor working papers to understand the procedures completed and we require to supplement or follow up in any way;
- consider unusual material transactions posted by management in the first accounting periods of 2022/23, which may indicate correction of previous errors, and understand the basis for these transactions; and
- review post 31 March 2022 actual transaction data for estimates made at the previous balance sheet date to assess the reasonableness of estimates made.

We identified a number of additional risk areas in relation to opening balances, following both our review of predecessor auditor files, early discussions with management around key judgements and estimates, and our wider understanding of sector appropriate accounting policies around material balances. Accordingly, we designed additional audit procedures, in relation to opening balances at 1 April 2022, and the most recent balance sheet date recognising that most errors by their nature would be identified through testing at the yearend then could be retrospectively considered for prior period adjustments. The additional procedures, while extensive generally, focused on an increased use of audit specialists to ensure appropriate consideration of historic balances requiring this input.

Our conclusions

We identified a total of 6 prior period adjustments which, by size or nature, are material to the point where either prior period comparatives or opening reserves must be updated to correct materially deficient balances. These related to heritage assets, group property valuations, and financial statement disclosures around the Group expenditure and funding analysis, related parties and cash flow statements.

We have also identified 8 audit differences related to prior period balances, which are sufficiently below our overall audit materiality to either not require prior period correction or not be adjusted in the financial statements at all. These related to accounting for sale and leaseback transactions, PPP accounting arrangements, and a range of PPE valuation differences. All audit differences related to the prior period have been recorded in Appendix F to this report, we have not duplicated those, or the related management control findings within this section. Recommendation 2, related to management arrangements for the quality assurance of the financial statements going forward, is also designed to address the material matters identified in our testing of opening balances.

In order to appropriately conclude on the correctness of opening balances, we have completed a total of 8 consultations with our professional practice team to confirm the appropriateness of the corrections, as well as a wider "stand back" consideration of further work required to verify the material accuracy of accounting records in prior periods.

Valuation of pension assets and liabilities

Audit requirements

The Group and Council's net pension asset/liability, measured as the sum of the long term payments due to members as they retire against the Group and Council's share of the Strathclyde Pension Fund investments, is a material balance in the Group and Council financial statements.

At 31 March 2023, the Council's valuation showed a net asset of £1 billion (2022: £575 million liability). A nil balance was recognised in respect of the Group and Council's participation in the LGPS, recognising uncertainty at the time around the appropriate treatment, and the lack of existing sector guidance available. .

Where a net asset exists, IAS 19 and IFRIC 14 limits (via an asset ceiling) the extent to which a surplus can be recognised as a defined benefit asset on the balance sheet.

Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The Group and Council engages an actuary to undertake the calculations on their behalf.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our findings

Equal pay

As noted on page 39, the Council recognised a provision of £260 million in respect of equal pay liabilities. This liability included an element of additional pension contributions in respect of the LGPS.

The impact of equal pay on the Council's defined benefit obligation had not been assessed in either 2021/22 or 2022/23. We requested updated IAS 19 reports taking account of the impact of the additional obligations arising from the equal pay settlement. This resulted in a prior period adjustment of £57 million.

The Council received an updated IAS 19 report for 2022/23 in respect of the above matter which resulted in an increase in gross pension liabilities of £34 million. This increase was offset by an increase of £37 million in gross assets arising from the actual asset return information rather than forecast. This resulted in a net increase of £3 million to a net asset of £997 million.

Asset ceiling

Accounting standards place a limit on the amount of pension surplus that can be included as an asset on an organisation's balance sheet. A Council cannot show an asset on its balance sheet relating to a defined benefit pension scheme which exceeds the economic value it is likely to derive from the pension scheme.

The amount that can be included as an asset is therefore restricted to the surplus which can be returned to the Council by way of refunds or reductions in future contributions. This restriction is known as the "asset ceiling".

As part of our audit procedures, we requested that the Council obtain an asset ceiling report from its actuaries. Our actuarial specialists reviewed the asset ceiling report and were satisfied that it was materially correct. As a result, the value of the Council's pension asset increased from nil £0.55 billion. This is disclosed as an adjusted audit difference in Appendix F.

Unfunded liabilities

The IAS19 actuarial valuation report that the Council has unfunded pension obligations at 31 March 2023 totalling £276.3 million (Group: £283.038 million).

Valuation of pension assets and liabilities

We agreed with management that these should be recognised separately on the balance sheet as an obligation on the basis that there are no plan assets to meet the pension liabilities. An adjustment has therefore been made within Appendix F to separately identify these liabilities.

Group pension asset recognition

The Group has a number of entities who also participate in the LGPS. Within the unaudited group financial statements, a nil balance was recognised.

In respect of the group entities, with the exception of Strathclyde Partnership for Transport who are a scheduled body.

In respect of SPT, an updated asset ceiling report was obtained to align to the approach taken by the Council. This increased the original total asset ceiling from £1.3 million to £11 million.

The other group entities are all admitted bodies of Strathclyde Pension Fund. We do not consider the same asset recognition restrictions to apply to admitted bodies. As a result, we recorded an adjustment to recognise a pension asset of £711.8 million within the Group statements.

Our conclusions

- We engaged specialists to support our work on the reasonableness of the underlying assumptions used by the Group and Council's actuary.
- We undertook procedures to ensure that the information supplied to the actuary in relation to the Group and Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- We considered the findings of the appointed auditor of the Strathclyde Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Group and Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2023 and we audited the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

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Equal pay provision and associated transactions

Audit requirements

In 2021/22, the Council recognised a provision of £260 million in respect of equal pay with payments being made in summer 2023. In order to fund these payments, the Council raised £210 million through sale and leaseback transactions with Council subsidiaries.

Accounting for both the provision and sale and leaseback transactions requires management judgement and are significant and unusual transactions.

During the audit we completed the following procedures:

- Reviewed and tested the calculation of the equal pay provision as at 31 March 2023;
- Assessed the completeness of the equal pay provision;
- Reviewed treatment against the relevant accounting requirements, including IAS 37 and the Finance Circular 2/23 Accounting for Equal Pay;
- Held regular meetings with Council officers, including finance, internal audit and the Monitoring Officer to ensure that we remained up to date with key developments throughout the year;
- Compared the provision at year end to post year end payments;
- Reviewed the accounting for the sale and leaseback transactions; and
- Tested the sale and leaseback transactions.

Accounting for equal pay provision

In 2022/23, the Council continued to recognise a provision of £260 million in respect of equal pay liabilities with final negotiations with the claimant groups still underway at the balance sheet date.

In May and June 2023, the Council reached settlements through Memorandum of Understandings (MoUs) with each of the three claimant groups. Through the MoU, all parties have agreed to broad terms for settling equal pay claims for all residual and ongoing equal pay liabilities up to October 2023.

The claims being settled under the MoU include new claims and all updated claims from those claimants that previously received settlements in 2019 along with any of the previous unresolved claims that missed the 2019 deadline, and which were still outstanding.

The MoUs set out wider agreed principles that allow the Council to mitigate and manage its ongoing equal pay risks during the period in which it aims to implement its new pay and grading system, including an agreement that no further equal pay claims will be pursued before 2027.

Through our review of the MoUs we were satisfied that the provision recorded was appropriate and that the contingent liability disclosures were also appropriate.

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Following agreement of the MoUs and agreement with HMRC, offer letters were issued to claimants from late June with payments commencing in July. To date, the Council has paid over 97% of claims.

In addition to payments to claimants and HMRC, the Council has arrangements in place to make payments to Strathclyde Pension Fund in relation to additional employee and employer contributions for Equal Pay claims (£32.6 million).

We have considered the wider impact of equal pay on the Council's pensions liabilities on page 37.

Funding the equal pay costs: Sale and Leaseback arrangements

In September 2022, the City Administration Committee agreed the approach to funding the Council's remaining equal pay obligations. The Council agreed to adopt similar sale and leaseback arrangements as adopted in 2019.

The Council considered a range of cultural and sporting venues, primary schools and care homes for sale and lease back to raise capital. The Council obtained independent advice in relation to the value of the properties and annual lease rentals. This consideration resulted in the following 6 assets being identified:

- Kelvingrove Art Gallery
- Kelvin Hall
- Gallery of Modern Art
- City Chambers
- Sighthill School Campus
- Gowanbank School Campus

In February 2023, City Property Glasgow (Operations SL3) LLP purchased the six noted assets from the Council at a cost of £210 million and leased them back over a period of 32 years.

The annual rent payable to City Property by the council for these six properties is expected to be £11.7 million plus annual inflation. The total annual rent payable to City Property for all 17 sale and leaseback properties is now £32.1 million plus annual inflation.

Following discussion with the Council, the Scottish Government issued local government finance circular 2/2023 which permitted the Council to defer the charge of the equal pay provision in the 2021/22 and 2022/23 financial statements. The deferred charge will be removed when the equal pay payments are made or the provision is reduced. This will take place in 2023/24.

The capital receipts obtained to fund equal pay liabilities will be held within the Capital Grants and Receipts Unapplied Account and transferred to the General Fund as expenditure is incurred.

Accounting for the sale and leaseback transaction

The Council obtained valuations for the 6 identified assets in September 2022 to support the overall funding project. As noted above, the property sales were transacted in February 2023. Within the 2022/23 financial statements, the Council recorded:

- A revaluation of the 6 assets as per September 2022 valuations;

- A disposal of the 6 assets as per September 2022 valuations and the sales price as per February 2023 terms; and
- An addition of the leased assets at the sales price value.

The above treatment did not result in a material gain or loss on disposal as the valuation and sales price were materially the same value.

We reviewed the accounting treatment for these assets and determined that the treatment was in line with Code requirements. Instead of revaluing the assets, the Council should have calculated a gain/loss on disposal which is amortised over the lease term. This resulted in an adjustment of £20 million.

Section 102 report on the 2021/22 audit of Glasgow City Council: Update on equal pay arrangements

In August 2023, the Accounts Commission issued an updated Section 102 report that focused on the Council's progress in relation to Equal Pay since the publication of its previous report in February 2020.

The Accounts Commission findings note that the Controller of Audit advised of the effective governance processes and arrangements in place for overseeing the programme of work.

The report notes the critical need to replace the Council's current pay and grading structure with one that is equal pay compliant. A pay and grading structure project (the PGS project) has been formed to implement the new pay and grading structure.

The project is complex, with a range of inter-dependencies, including the completion of a comprehensive job evaluation exercise, PGS design, financial modelling, gender pay gap analysis and significant payroll revision. The programme governance arrangements include representation from HR, Legal, Finance, and Technical Workstreams, with participation from trade unions.

Once the Council has implemented its new pay and grading structure it is preparing for a level of appropriate backdating of pay, depending on the results of job evaluation and the pay and grading structure for the period between October 2023 and implementation.

Any changes to role gradings and pay levels and the cost of backdating pay will have potential implications for future affordability.

The Council currently plans to complete the job evaluation process by April 2024, and the pay and grading system will be implemented in 2024/25. Significant risks remain about the timescales for delivery, specifically in relation to the job evaluation process. Around 2,000 unique jobs have been identified that required to be evaluated.

Exhibit 5 highlights the Account Commission's continuing interest in the Council's arrangements, and the expectations that we will continue to monitor and report upon implementation throughout our appointment.

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Equal pay provision continued

Exhibit 5: The Accounts Commission published a Section 102 report on the Council's equal pay arrangements in August 2023

The Commission made key recommendations for the Council and Appointed Auditor:

- We urge all parties involved to continue to work at pace to conclude the recovery plan for job evaluation in accordance with this timetable and we encourage the council to ensure it has appropriate contingency plans, bearing in mind the risks identified in relation to the scale of the job evaluation process.
- We ask the appointed auditor to continue to monitor and assess the impact of the equal pay arrangements at the council through their annual audit work. We also ask the Controller of Audit to provide the Commission with a further update in 2024. If any significant issues arise before this, in relation to the planned implementation of the pay and grading structure, we ask the Controller to report this as a matter of urgency.

Our conclusions

- We reviewed the legal agreements in place with claimants to allow us to conclude that the Council has appropriately provided for the maximum likely provision. The vast majority (£260 million; 98.6%) of the total provision can be agreed directly to an explicit term within the main claimant group Memorandum of Understanding.
- We engaged specialists to support our work on the reasonableness of the Council's estimates in relation to employee and employer contributions.
- We noted that 97% of claims were paid by September 2023.
- We performed audit procedures in relation to the sale and leaseback arrangements, including review of title disposition, lease terms and lease values. We identified a £20 million error in respect of the accounting for this arrangement. The adjustments are summarised in Appendix F.

Going concern

Audit requirements

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

Under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of the ongoing impact of Covid-19, the cost of living crisis and inflationary pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. For the Group financial statements, management must also assess the wider financial position for all entities consolidated into the financial statements, in particular those which are not protected by the presumed continued provision of services that statutory local government bodies are.

Management's going concern assessment must therefore include consideration of support guarantees provided across the group entities, and any contractual support it is obliged to provide where group entities cannot meet payments, such as with the sale and leaseback subsidiary entities.

Management's assessment covers the 12 month period following approval of the financial statements, to March 2025.

After completing its going concern assessment in line with the information and support provided through earlier discussions in the audit process, the Council has concluded that there are no material uncertainties around its or the wider Group's going concern status. We have outlined our consideration of the Council's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- The completeness of factors considered in management's going concern assessment.
- The accuracy of management's supporting cash flow and liquidity forecasts for the going concern period.
- The completeness of disclosures in the financial statements in relation to going concern and future financial pressures and how savings challenges in the short and medium term will be addressed.

Our conclusions

- We reviewed and challenged the going concern assessment provided by management. Due to the wide ranging Group support arrangements in place at the Council, and financial sustainability challenges outlined in this report, this included an additional consultation with our professional practice team.
- We verified the assessment to supporting information, including key reports to the Council and financial plans. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council or Group.

ISA (UK) 315: Identifying and assessing the risks of material misstatement

Audit requirements

As set out within our Annual Audit Plan, there has been a significant change to the auditing standard, ISA (UK) 315 and this impacted our 2022/23 audit approach and the procedures we needed to perform.

The standard drives our approach to consideration of the specific systems used to create the financial statements, including:

- Risk assessment.
- Understanding the Council's internal control arrangements.
- The identification of significant risks.
- How we address significant risks.

Key changes to our audit approach as a result of the implementation of ISA 315 were:

- A significant increase in audit work on the Council's use of IT in the systems of internal control across partner organisations.
- Increased importance of our understanding of the entity and environment, the applicable financial reporting framework, and system of internal control.
- A greater focus on professional scepticism including ensuring that audit approaches do not show bias to look for corroborative evidence or excluding contradictory evidence.
- We made enhanced inquiries of management and others within the Council who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.
- We held discussions with key members of the Council including in respect of the risks of fraud and considered the implications for the audit.

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ISA (UK) 315: Identifying and assessing the risks of material misstatement

Our findings

In line with the requirements of ISA 315, our audit approach was updated to reflect a number of matters identified through risk assessment, including:

- Internal audit's qualified opinion on the Council's financial systems.
- Our assessment of the functionality of key financial systems, and the subsequent challenges that would be encountered in adopting a more modernised, automated approach to the audit.
- The identification of a number of material prior period adjustments required to the opening balances.

Our audit approach was therefore tailored to reflect the risk assessment of the Council, the more material general changes being:

- Significantly increased levels of additional review and challenge through the audit process, through both the audit manager, partner, engagement quality control reviewer and professional practice input.
- A greater focus on professional scepticism around key estimates and judgements, and significant and unusual transactions.
- We obtained an exemption from our central risk team from adopting our standard data driven audit methodology, reflecting the risks around its implementation in the context of the internal audit opinion and our risk assessment around key financial systems. In its place we adopted a more traditional, substantive approach based on additional transactional testing.

In addition to these changes, we have set out the specific additional risk responses to each significant and inherent risk throughout this report. We maintained a continuous review of our risk assessment arrangements through the audit, including through our conclusion procedures.

Our conclusions

- We identified 7 relevant IT systems and applications which contribute to the production of the Council's financial statements.
- Our audit approach was updated to reflect our findings and overall assessment of both the Council's control environment and the robustness of the systems contributing to the financial statements.
- We reported on our control observations pertinent to the financial statements' production through this report.

4. Best Value and Wider Scope Audit

Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

Risk assessment and approach

The Code sets out the four dimensions that comprise the wider scope audit for public sector in Scotland:

- Financial management.
- Financial sustainability.
- Vision, Leadership and Governance.
- The use of resources to improve outcomes.

We apply our professional judgement to risk assess and focus our work on each of the wider scope areas. In doing so, we draw upon conclusions expressed by other bodies including the Council's internal auditor and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

Best Value

The Code explains the revised arrangements for the audit of Best Value. The Accounts Commission require auditors to assess and report on the Council's performance in meeting its Best Value and community planning duties. This includes the follow up of actions that were previously agreed within the Best Value Improvement Plan.

The findings from our wider scope work have informed our assessment of Best Value in 2022/23. In addition, the Accounts Commission requested that we conduct a thematic review of leadership and strategic priorities, based on a work programme provided by Audit Scotland.

Exhibit 6: Our RAG ratings

Red Amber Green	Our auditor judgements are RAG rated based on our assessment of the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each area. This takes account of both external risks not within the Council's control and internal risks which can be managed by the Council as well as control and process observations made through our audit work.

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Financial Sustainability

Our overall assessment: Red

The Council agreed the 2024/25 budget in February 2024. This sets out significant saving and income generation requirements to meet a projected gap of £107.7 million in the three-year period to 2026/27. As part of both the 2024/25 budget and the three year savings plan, the Council did not assume any contribution from reserves but sought instead to achieve balance through savings and additional income generation, and provide contingency for some of the financial risks, including those identified below.

The Council has indicated that £60 million will remain available within the Budget Support Fund at 31 March 2024 to support the delivery of the budget, including costs associated with early retirement and severance schemes.

However, the Council continue to face significant risks in the medium term, including its ability to generate new sources of income at the pace required within the budget, and the financial implications both of the implementation of the new Pay and Grading Scheme, including backdated pay, projected rates of homelessness within the City, and the wider external funding uncertainty that we expect to continue going forward. There is a need for a robust medium term financial strategy to demonstrate how Council priorities will be achieved across a range of scenarios.

The context for financial sustainability within the Council sector

Scotland's public services are facing unprecedented challenges. In May 2023, the Scottish Government's Medium Term Financial Strategy showed that forecast spending could exceed funding by 2% (£1 billion) in 2024/25, rising to 4% (£1.9 billion) in 2027/28.

The Accounts Commission publishes an annual report on the financial performance of Councils. Financial Bulletin 2022/23 was published in January 2024. The report highlights the significant pressures impacting the sector in 2022/23 including:

- The impact of high inflation leading to a fall in total revenue funding of 2.8% in real terms across the sector;
- An increasing proportion of funding from the Scottish Government being ring-fenced for specific services; and
- Pressure on all public-sector capital budgets, presenting a risk to the viability of local government capital programmes.

The report notes that councils are increasingly having to rely on savings and reserves to balance budgets.

Although Scottish Government core funding increased in cash and real terms in 2023/24, councils reported a significant increase in the total budget gap to £725 million.

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Verity House Agreement

In June 2023, the Convention of Scottish Local Authorities (CoSLA) and the Scottish Government agreed a new Partnership Agreement (known as the "Verity House Agreement") to develop a more collaborative approach to delivering three shared priorities:

Tackling poverty;

- Just transition to net zero; and
- Sustainable public services.

The agreement is a high-level statement of intent, recognising that significant activity is underway to support each priority, and that there are potential programmes of joint work between local and central government.

The Agreement includes a commitment to offer councils longer-term funding and greater local financial flexibility. This includes reductions in ring-fenced funding and the conclusion of a Fiscal Framework to support more regular budget engagement and better longer-term planning of resources.

The 2024/25 Scottish Budget was largely in line with the Council's updated expectations

The Scottish Government published the Scottish Budget in December 2023, and is expected to be ratified in March 2024. The budget addresses plans only for 2024/25, rather than the multi-year spending plans that were expected as a result of a commitment within the Verity House Agreement.

The budget included announcements that the Scottish government will provide:

- Funding of £144 million to fund the announced Council Tax freeze;
- An inflationary increase in the Scottish Child Payment, to £26.70 per week from April 2023; and
- An additional £550 million for NHS boards.

Other specific funding for the local government sector includes funding for social care and childcare workers in commissioned services to be paid at least £12 per hour from April 2024.

COSLA's analysis of the budget notes that the budget results in a cash reduction of £62.7 million for Scottish councils in 2024/25, prior to the application of inflation.

The Council adopted a Budget Strategy to respond to a significant funding gap in the three-year period to 2027

The Council agreed it's high level medium term Budget Strategy at the City Administration Committee in November 2023. The report noted that there was sufficient certainty around Scottish Government funding estimates to allow the Council to proceed with three year savings plans.

The Council has assumed that Local Government will receive a minimum of flat cash for the next three years.

The report notes that the Council will benefit from a "windfall" effect of reducing employer contributions as a result of the recent triennial review of the Strathclyde local government pension scheme. While this offers some mitigation to manage immediate financial pressures for the next two years, an estimated spending gap of £120 million was set out for the three-year period 2024-25 to 2026-27.

As a result, the committee, agreed the principles that will underpin the identification and development of savings options. This approach allowed officers to agree savings targets for most services, and develop budget options for discussion at the Cross-Party Budget Working Group, and thereafter Council consideration of the 2024/25 budget in February 2024.

The assumptions within the Budget Strategy were updated following the receipt of the draft Local Government Settlement for 2024-25 in December 2023. The projected gap now stands at £107.7 million over the three-year period.

The Council's three-year budget was set in February 2024 and aims to bridge the current £107.7 million funding gap

The Council met to agree the 2024/25 budget on 15 February 2024. The Council has adopted a three-year savings plan, recognising that savings of this scale require lead time to plan and implement budget proposals.

The budget agreed a significant programme of savings, including budget options of:

- £29.1 million to be delivered in 2024/25;
- £22.9 million in 2025/26; rising to
- £32.7 million in 2026/27.

Exhibit 7 highlights that one key project will be responsible for closing £33.5 million (31%) of the funding gap, including £8 million in 2024/25. The Council has outlined plans for a Service Redesign and Future Income generation project to progress areas with the potential to generate additional revenue, including:

- The Transient Visitor Levy;
- Congestion charging; and
- The Workplace Parking Levy.

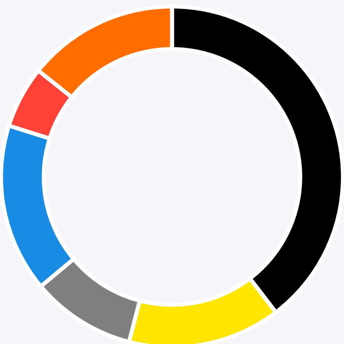
The Council has allocated a one-off investment of £2 million in 2024/25 to create a team within the Chief Executive's Department to progress business cases for each area of additional revenue, alongside the roll out of bin hubs and the development of a Glasgow Green Investment model. There is a need to realise financial benefits from these projects at pace.

The Council has signalled that governance arrangements for this project will include a Political Oversight Group, to be chaired by the City Treasurer. However, the scale of savings to be delivered within the three-year budget, alongside the level of risk associated with any new income streams, means that the Council should ensure that reporting against plans is robust and transparent, allowing scrutiny at the Finance, Audit and Scrutiny Committee.

Recommendation 20:

The Council should establish reporting arrangements to monitor the achievement of savings against plan. This should include an assessment of the return on investment against key projects. **(Grade 1)**

Exhibit 7: The Council's three-year savings plan outlines a number of strategies to bridge the funding gap, including income generation, increases in parking charges and removing empty property relief



Source: *Glasgow City Council Revenue Budget 2024-25*

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The Council's usable reserve balances increased significantly in 2022/23 as a result of funding arrangements for equal pay liabilities

Exhibit 8 highlights that the Council's usable reserves increased by £245 million in 2022/23. There are two key factors underpinning this movement:

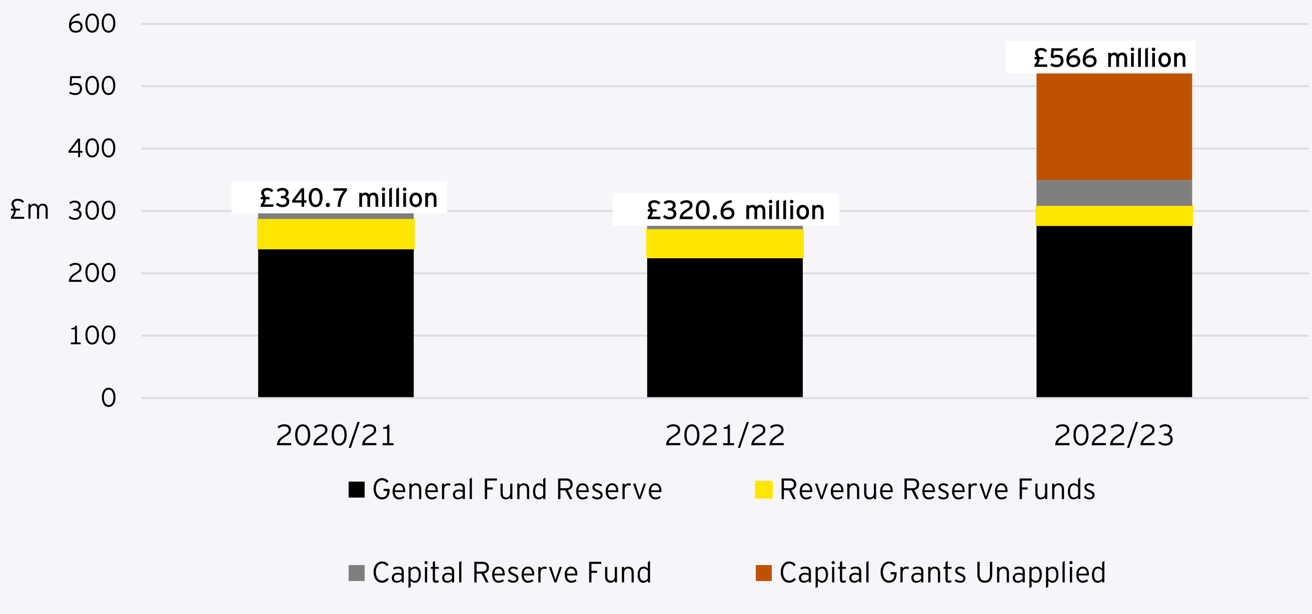
- The impact of sale and leaseback arrangement to fund the Council's equal pay obligations (resulting in a £200 million increase in the Capital Grants Unapplied Reserve) (refer to page 40); and
- The application of fiscal flexibilities in the year, and a corresponding increase in General Fund Reserves of £105.4 million at 31 March 2023.

The Council benefitted from changes to accounting for service concessions, allowing it to create a £109.5 million Budget Support Fund

The Council has taken advantage of the fiscal flexibilities that have been available to local government since October 2020 in relation to service concessions. In March 2023, the Council approved the restructuring of the liability held in the Council's service concession arrangements for the provision of schools over the lives of the assets instead of the lives of the contracts, in line with the finance circular 10/2022.

This resulted in a one-off benefit of £109.5 million to the reserves position, allowing the Council to create a Budget Support Fund. Costs of £4 million were met from the Fund in 2022/23.

Exhibit 8: Reserves balances increased by £245 million during 2022/23, principally as a result of the application of service concession financial flexibilities



***Source:** Glasgow City Council Financial Statements*

The Council agreed to create the Budget Support Fund at the 2022/23 budget meeting in February 2023. The Budget Support Fund is earmarked to meet the implementation costs associated with budget savings options, including severance costs.

As Exhibit 9, below, highlights, the Budget Support Fund is projected to reduce to £60 million by 31 March 2024 as a result of the use of £45.5 million in 2023/24.

The use of the Fund was not reported consistently or clearly within budget monitoring reports in 2023/24. We note based on our review of monitoring reports that use of the Fund in 2023/24 includes:

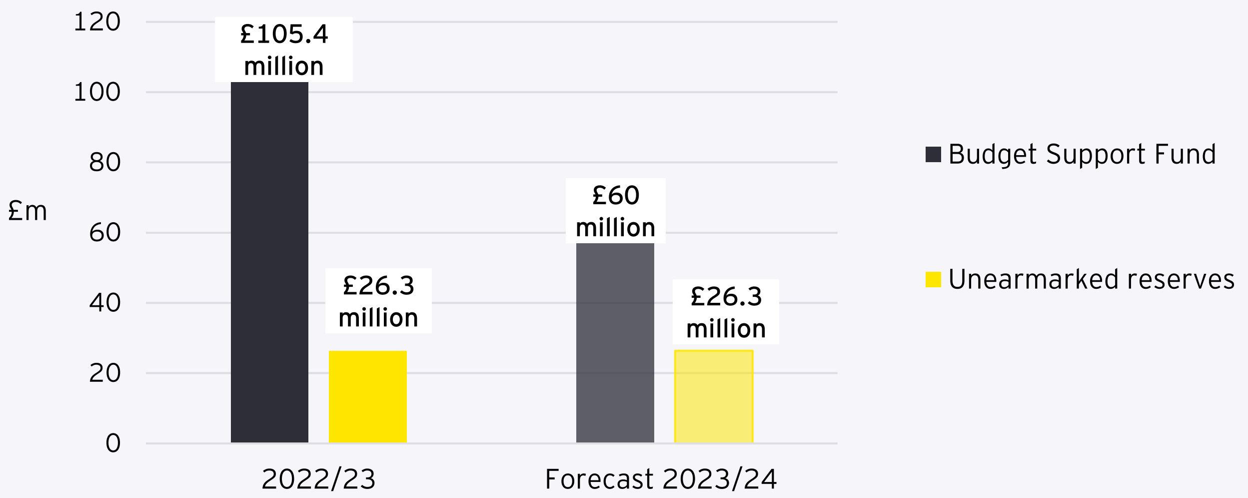
- The planned contribution from balances in 2023/24 budget of £6 million;
- A £19 million increase in contribution in balances as a result of service overspends or inability to deliver planned budget savings;
- Early Retirement/Voluntary Redundancy Costs incurred in 2023/24 of £2 million;
- A drawdown of £3.4 million by City Building;
- A budget virement to the Neighbourhood, Regeneration and Sustainability Directorate of £6.5 million; and
- A contribution to Education Services of £1.1 million.

While we note that the Council has outlined plans to replenish reserves in 2024/25, regular reporting of any transfers, and the remaining balance, should be a key section of future budget monitoring reports.

Recommendation 21:

The Council should set clear criteria for the use of Budget Support Fund balances and report on the use of the Fund within regular budget monitoring reports. **(Grade 1)**

Exhibit 9: The Council projects that the unearmarked General Reserve will remain below its target in 2023/24. The significant use of the Budget Support Fund in 2023/24 limits the flexibility to manage the risk associated with savings requirements in the medium term.



Source: *Glasgow City Council Revenue Monitoring Report, P10, February 2024*

The Council's unearmarked reserves continue to fall below the target level of 2% in the medium-term

Prior to the application of fiscal flexibilities, the Council's General Fund reserves fell by £53 million in 2022/23 as a result of:

- the use of earmarked balances (£46.4 million), including Covid-19 grants (£17.5 million); and
- the use of the General Fund Reserve (£7.1 million).

As a result, the Council's earmarked reserve balance is now £26.3 million, representing 1.4% of net expenditure. As in prior years, this level falls below the Council's medium-term target of 2%.

The Council does not expect to draw upon General Fund reserves in 2023/24 as key areas of overspend will be met by the Budget Support Fund. In addition, the 2023/24 budget sets out arrangements to replenish reserves as part of the medium-term financial planning arrangements.

Financial risks remain that are not fully reflected within the Council's current plans

The Council agreed a very challenging three-year savings plan in February 2024, recognising that there was a need to go beyond the historic approach to identifying and delivering savings. We do not underestimate the difficulty faced by elected members in agreeing the scale of budget options required.

The Council has, however, not yet translated the budget into a medium-term financial plan to assess the impact of a number of scenarios on the reserves position, including significant areas of uncertainty such as:

- the financial implications from the implementation of the new Pay and Grading Scheme;
- the ability to secure new income streams within the timescales envisaged, including for those subject to approval by the Scottish Government; and
- ongoing areas of financial risk, such as the current level of overspend on homelessness services reported by the Council's partner, the Glasgow Integration Joint Board.

Recommendation 22:

There is a need to translate the three-year budget into a longer-term strategy to address the key risks facing the Council, and model the impact of a range of scenarios both on the Council's reserves and the priorities set out in the Strategic Plan. **(Grade 1)**

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Financial Management

Our overall assessment: Amber

The Council concluded that only limited assurance could be placed on the systems of internal control in the year as a result of significant governance findings, including the failure of a key business system in the year, which has been reflected in our consideration of vision, leadership and governance. There were significant additional pressures on the Finance Team following the late conclusion of the 2021/22 audit in April 2023, and the Council finance function was required to demonstrate significant resilience above that embedded in its own formal arrangements in addressing both the major setbacks to day to day operations and the scale and complexity of significant and unusual transactions.

Overall, our observation is there is a lack of capacity within the Council's finance function, particularly in light of increasing financial reporting complexity and anticipated challenges in implementation of new systems going forward. The Council needs to critically reassess the sufficiency of its financial management capacity in the context of internal and external audit findings, the current system and internal control weaknesses, and the scale of the financial challenge outlined within the three-year financial savings plan.

The audit of the financial statements identified further significant financial statement control weaknesses and a large number of adjustments, including errors that impact the prior year financial statements, which has been reflected in our financial statements audit commentary and overall assessment of red in that area.

We have identified a number of areas where there is scope to enhance the budget monitoring reporting to Members to support better scrutiny arrangements.

The Council's recorded an overspend of £13.4 million in service expenditure in 2022/23

The Council's overspend in 2022/23 totalled £13.4 million against budgeted service expenditure after the application of £17.6 million of Covid-19 funding.

Financial pressures across service budgets included:

- Overspends in employee costs and inflationary increases within Education Services (£2.5 million);
- Overspends in housing benefits, food costs and under-recovery of income (£3.7 million); and
- Overspends within Neighbourhood, Regeneration and Sustainability due to overtime and agency staffing costs, higher transport costs and increased repairs across the estate (£5.8 million).

This has a corresponding impact on the Council's reserves balances, including the unearmarked General Fund reserve and Budget Support Fund which are available to meet unforeseen costs in future years.

In 2022/23, the Council drew upon £7 million of unearmarked General Fund reserves in line with the approved budget, and costs of £4.1 million were charged to the Budget Support Fund

Budget monitoring reports reflected a growing overspend against services throughout the financial year

The City Administration Committee and Finance, Audit and Scrutiny Committee consider quarterly budget monitoring reports, although the timeliness was impacted in year by the SAP Outage in early 2023.

Budget monitoring reports are critical for elected members to make decisions about the prioritisation of resources. Exhibit 6 highlights that forecasting for most of the year projected a growing overspend against service budgets, predominantly as a result of significant inflationary and staffing pressures.

There is scope to improve the transparency, and subsequent scrutiny, of financial monitoring reports by focusing on key factors that impact elected member decision-making, including:

- information on key variances and areas of financial risk;
- risk assessed progress against saving targets; and
- the projected impact of service outcomes on the General Fund reserve, and Budget Support Fund.

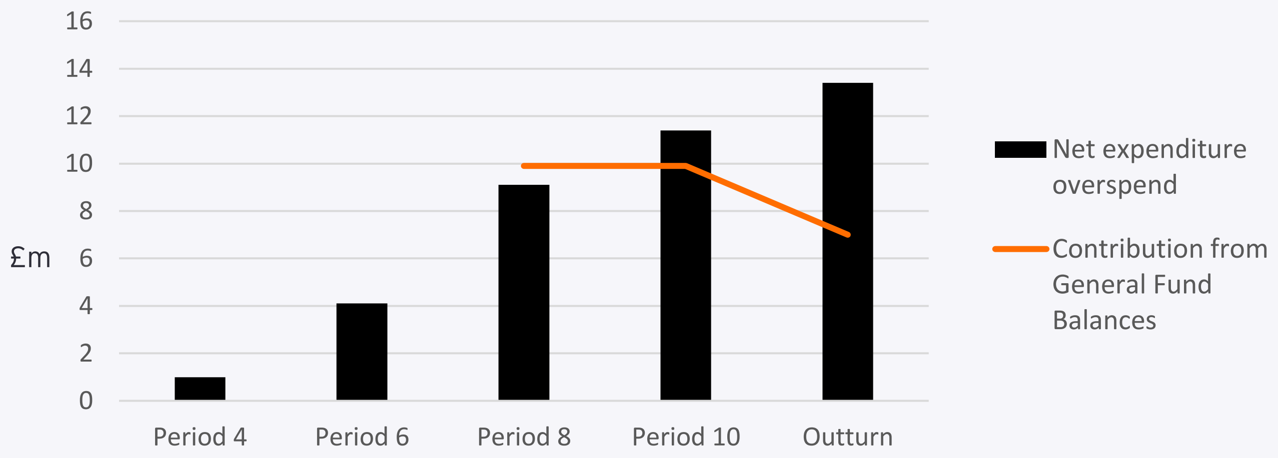
As Exhibit 10 notes, the budget monitoring reports only provided the projected impact on General Fund balances from Period 8 onwards.

In Audit Scotland's most recent report on the sector, Local Government in Scotland Financial Bulletin 2022/23, they note that the scale of the financial challenge ahead means that councils should act to strengthen their monitoring and reporting of financial resilience. The current report structure primarily relies on narrative to describe movements against budget, and key financial information is included with service narrative reporting within appendices.

Recommendation 23:

The Council should ensure that budget monitoring reports reflect key indicators to monitor financial resilience and support elected member decision-making. **(Grade 2)**

Exhibit 10: The projected service overspend increased throughout the financial year



***Source:** Glasgow City Council Budget Monitoring Reports 2022-23*

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The Council estimates that it delivered over £23 million (88% of target) savings in 2022/23

Performance against annual efficiency savings is included within individual service narratives provided to the Finance, Audit and Scrutiny Committee regularly throughout the financial year.

We note in Exhibit 11 that services expected to deliver £25 million (88%) of savings in 2022/23, and estimate that they will deliver £32.5 million (82%) in 2023/24 As in prior years, unachieved savings predominantly related to the Neighbourhoods, Regeneration and Sustainability service (£2.9 million), which contributed to the overall overspend position.

The Council reviewed its arrangements against the CIPFA Code of Financial Management and concluded that they could demonstrate overall compliance

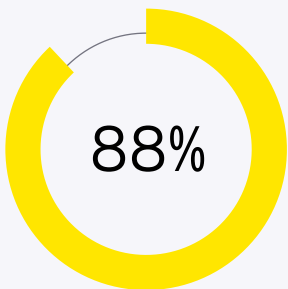
The CIPFA Financial Management Code came into effect for all local government bodies during 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management.

The standards are considered necessary to provide the strong foundation to:

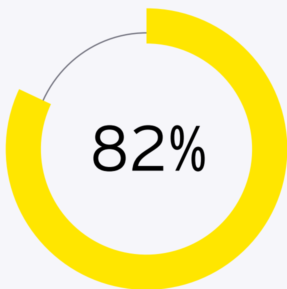
- financially manage the short, medium and long-term finances of a local authority;
- manage financial resilience to meet unforeseen demands on services; and
- Manage unexpected shocks in their financial circumstances.

Management conducted a self-assessment

Exhibit 11: The Council delivered 88% of savings in 2022/23, and is on track to deliver a further £32.5 million (82%) in 2023/24



The Council delivered £25.4 million of the targeted £28.8 million efficiency savings in 2022/23 (£3.4 million were undelivered and funded from General Fund reserves.)



The Council project that they will deliver £32.5 million in 2023/24, against the targeted £39.5 million (£7 million at risk)

Source: *Glasgow City Council Budget Monitoring Reports 2022-23* against the Code and noted key strengths including:

- Compliance with the CIPFA Statement of the Role of the Chief Financial Officer;
- The three-year savings plan agreed as part of the 2024/25 budget;
- The Council's "Financial Regulations, Management and Control Code of Practice", scheme of delegation and Standing Orders Relating to Contracts that document the procedures for key finance activities and processes; and
- Committee reporting and budget options that identify financial, operational, equality and carbon impacts.

The self-assessment identified only one area for improvement, relating to governance arrangements within one ALEO, City Building (refer to page 61).

Recommendation 24:

The FASC should consider an updated self-assessment against the Financial Management Code as part of the wider improvement actions following conclusion of the 2022/23 annual financial statements. **(Grade 2)**

The Council concluded that limited assurance can be placed upon the adequacy and effectiveness of the systems of governance and internal control

Within the Annual Governance Statement, the Council has concluded that they have obtained limited assurance that the system of internal control was operating effectively during the year as a result of significant governance concerns (refer to Exhibit 12) including the SAP outage. This resulted in the business critical Enterprise Resource Planning system being unavailable for five weeks.

Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an assessment of the financial control environment as part of our planning work, and updated our understanding as part of the year end audit. Following the revisions to the ISA (UK) 315, our audit methodology included a greater focus on the use of IT in the system of internal control.

We were able to conclude on our work in this area, however we noted:

- Due to the SAP system outage (reported on page 34-35 of this report) we undertook significant additional assurance work, including engaging with our own internal IT system specialists, to respond to the additional risks outlined above.
- Based on our risk assessment of the Council's internal control environment, we adopted both a fully substantive and more traditional audit approach to reflect the lack of assurance that could be provided by either the financial control environment or the underlying finance and related systems.
- We have separately raised 7 recommendations in this report directly or indirectly related to financial management control arrangements, of which 3 are rated as high risk.

Throughout the audit we have also made a number of observations relating to the operation of controls. In Section 3 we we raised 64 audit adjustments and we have made 19 recommendations aimed at improving the financial control environment.

The Council's Counter Fraud and Investigations Team identified over £1.5 million of savings in 2022/23

The Council has a Corporate Fraud and Investigation (CFI) Team within the Internal Audit department. This allows the Council to respond to whistleblowing and other allegations, and respond to the National Fraud Initiative (NFI). A whistleblowing response policy is in place and was last updated in October 2021. Contact details for whistleblowers are signposted on the Council's website.

The NFI programme is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The annual exercise produces data matches by comparing information held on public bodies' systems to identify potential fraud or error.

The Council most recently reported on progress against NFI within the Internal Audit Mid-Year Report (November 2023). This noted that the Council has received 27,646 matches to investigate, of which 26,381 are high priority. The majority of matches (17,352) relate to creditor matches.

At the date of drafting this report, 3,127 matches have been investigated and 10 errors have been identified to date with a value of £35,317. There has been less progress on the follow up of matches, particularly relating to payroll, creditors and Companies House.

The Council has noted that this approach is in line with its internal approach to prioritisation based on its assessment and experience of the likelihood of matches resulting in potential savings. In addition, the team has indicated that the completion of the Corporate Fraud Workplan is at risk within the Mid-Year report.

▶ Recommendation 25:

The Council should formally agree a prioritisation of actions related to the NFI programme internally and through engagement with Audit Scotland, as the leader of the NFI programme in Scotland. **(Grade 2)**

The Council has recently contracted with an external provider to review the provision of single person Council Tax discounts. Savings in 2022/23 totalled £116,000.

We note that the Council's 2024/25 budget assumes that increased detection of fraud and error in relation to Council Tax claims for relief will account for additional income of £0.537 million.

The Council reports on the delivery of its significant capital investment programme

The Council reports annually on the performance of the Capital Investment Programme, including the status of projects across financial years. The capital outturn was £157 million, resulting in an underspend against financing costs of £20.4 million. This reflects capital asset sales of £6.4 million and lower interest costs of £14 million due to the lower level of capital expenditure than planned.

The scale of projects mean that they often straddle financial years and management has therefore established arrangements for internal monitoring in a Capital Programme Board, which is chaired by the Director of Financial and Business Services. A total of 58 projects were underway in 2022/23, of which 46 were already in progress at the start of the financial year.

Reporting to the Board noted that five projects were categorised as "red" throughout the financial year as they were behind the scheduled programme and/or over budget. The Council assess the main factor in each of these cases as relating to materials and labour shortages. These challenges are likely to continue to impact projects for the foreseeable future. Of the 15 projects that were completed in year:

- 11 (73%) were completed after the planned timescales;
- 6 were completed within a revised budget; and
- 6 were completed within the approved budget.

The Capital Programme Board provide quarterly progress updates to the City Administration Committee, the Committee responsible for approving budget virements. In addition, more detailed monitoring reports are provided to the Finance, Scrutiny and Audit Committee.

The current reporting arrangements do not fully reflect the size or complexity of the capital programme. In some instances, the level of detail provided may undermine effective scrutiny. For example, the quarterly Investment Programme reports to the Finance, Audit and Scrutiny Committee are typically over 80 pages long.

Increased oversight and transparency on the progress of capital projects against key milestone dates, would provide additional assurance that investments will be delivered as planned.

Recommendation 26:

The Council should ensure that capital monitoring arrangements provide clear and concise reporting against individual programme progress and budgets. **(Grade 2)**

Financial management arrangements need to meet the scale and complexity of the Council's requirements

We have considered the strength and depth of the finance team, including the arrangements for workforce and succession planning.

A further potential £226,000 of corporate finance savings relating to FTE reductions are included in the current three-year budget savings proposals. This is against the Council's context of increasing challenges in the effectiveness of underlying financial systems, increased workloads linked to financial process requirements, and an increasingly onerous external financial monitoring, technical accounting and external scrutiny environment.

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Our experience throughout the first year of the audit is that key personnel with financial management responsibility have extensive experience and demonstrate a strong working knowledge of the Council's arrangements. However, the capacity of the finance team is clearly significantly under pressure. This has been exacerbated in recent years by:

- increasing failures in the underlying control environment;
- a significant increase in the number of significant and unusual transactions requiring significant technical consideration;
- a number of years of the external audit cycle no longer being in line with traditional timetables; and
- the additional scrutiny this year of a new auditor and the additional work required to address a number of significant legacy accounting and audit matters.

The capacity of the finance team does not reflect the difference in both scale and complexity of the Council compared to other local government bodies. This creates a significant key personnel dependency and lack of sufficient time to adequately address technical accounting requirements, such as those around PPE valuations, sale and leaseback transactions and equal pay accounting. This pressure will continue to increase in the next four years as aged systems require updating and replacing, and new accounting standards create additional work which falls to a small number of sufficiently skilled accountants.

Recommendation 27:

The Council needs to critically reassess the sufficiency of its financial management capacity in the context of audit findings, the current system and internal control weaknesses, and the anticipated challenges going forward. **(Grade 1)**

Vision, Leadership and Governance

Our overall assessment: Red

The Council has set out its vision for the City within the Strategic Plan 2022-27. Appropriate governance arrangements have been established to monitor and scrutinise key policies and risks. However, the Annual Governance Statement reports on significant governance issues identified in 2021/22 and 2022/23.

Matters arising include failures within ICT systems and a series of whistleblowing allegations within one of the Council's ALEOs, City Building, which have led to the identification of governance, HR and procurement issues. As a result of the matters identified, the Council concluded that limited assurance can be placed on the system of internal control in both 2021/22 and 2022/23. While the Council centrally can demonstrated responsiveness to these matters, there remain significant outstanding work to address the issues identified and mitigate the associated risks. These must be addressed as a matter of urgency.

The Council approved the Strategic Plan 2022-2027 in October 2022

The Council's Strategic Plan 2022-27 is mission-based and seeks to address four grand challenges for the City:

- Reduce poverty and inequality in our communities;
- Increase opportunity and prosperity for all our citizens;
- Fight the climate emergency in a just transition to a net zero Glasgow; and
- Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.

Our work on the Best Value Thematic Review for 2022/23 focused on strategic planning and noted that the commitments within the Plan are intended to be stretching but that an annual review process is in place to review and update the plan to reflect emerging priorities and pressures.

As a major City, the Council has a wide variety of strategies and plans including economic, investment and asset strategies. There is not yet full alignment between individual plans with the Strategic Plan or medium or long term financial plans.

The Annual Governance Statement demonstrates that it has the key requirements for good governance in place but highlights four significant governance issues

The key aspects of the Council's governance arrangements are required to be disclosed in the Annual Governance Statement within the financial statements. This includes the arrangements for managing the "Council Family" of arms-length organisations, the arrangements in place to scrutinise key policies, anti-fraud and whistleblowing arrangements and the Council's approach to risk management.

We reviewed the governance statement against the requirements outlined in the CIPFA framework for *Delivering Good Governance in Local Government*, and against our understanding of the Council's arrangements in the period to 31 March 2023. We noted areas for improvement to align with good practice and clarify accountability for action.

Recommendation 28:

The Council should review the content of the Annual Governance Statement against good practice requirements to ensure that risks and accountability are fully explained. **(Grade 2)**

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The key requirements for good governance are in place, commensurate with an authority the size and significance of Glasgow City. However, the Council's Annual Governance Statement discloses four significant governance areas, which have resulted in qualified internal audit opinions in both 2021/22 and 2022/23 (Exhibit 12).

We work closely with the Council's internal auditors throughout the financial year to consider their key findings and the results of follow up work. The SAP Outage was identified as a specific risk to our financial audit procedures within Section 3. We note further ongoing concerns in relation to the pace of change at City Building, including the completion of the improvement plan.

The improvement plan contains 76 individual actions. To date, 9 of the actions have been fully closed following audit confirmation, while a further 35 are assessed as complete by management. Areas where progress has not been made as planned include:

- The conclusion of the 2021/22 financial statements;
- Workforce planning improvements; and
- The implementation of annualised salary contractual arrangements.

Recommendation 29:

The improvement actions in relation to the significant governance matters at City Building must be concluded at pace. **(Grade 1)**

Exhibit 12: The Council highlights four significant governance issues within the Annual Governance Statement 2022/23

- **ICT Service and Security:** The Council's internal auditors highlighted significant concerns relating to ICT security and ICT contract management arrangement. Internal Audit continue to monitor the progress made by the Council's and it's ICT provider, CGI, on the high priority actions that are required to mitigate the significant risks to an appropriate level.
- **SAP P1 Incident:** In January 2023, the Council experienced a critical incident involving the SAP system, leaving this business critical Enterprise Resource Planning system unavailable for five weeks. Our consideration of the impact on the 2022/23 is summarised on page 35.
- **City Building Servitor Upgrade:** Servitor is a key system used to manage and coordinate repairs and maintenance activities, including workflow scheduling and mobile working and billing clients, including the Council. The system experienced significant operational and financial issues immediately following an upgrade go-live in July 2022. This had an impact on transactional activity between City Building and Council Services/ALEOs and the ability to produce accurate management accounts, and the production of the 2022/23 financial statements. This is not yet resolved.
- **City Building Governance:** The Council's internal auditors responded to a series of whistleblowing allegations. Significant compliance matters covering key governance, procurement and HR practices have been identified and have resulted in a delay to the signing of the 2021/22 City Building financial statements. In response to the investigation findings, a City Building Glasgow Partnership Oversight Board has been established jointly by the Council and the Wheatley Group senior officers.

Source: Annual Governance Statement, 2022/23 Financial statements

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The Council plans to make significant organisational changes in a programme of work that will stretch the capacity of senior management

As we note within our consideration of the Council's equal pay arrangements, plans are in place to implement a new pay and grading scheme in 2024/25.

At the same time, the Council has begun a fundamental project on the future delivery of the Council's digital and ICT services in a programme known as the Future of ICT. An Outline Business Case was considered by the City Administration Committee in September 2023 and a preferred option for delivery was selected. A full Business Case will be concluded by officers.

As Exhibit 13 outlines, there are a range of interdependencies and critical path requirements between the completion of the pay and grading project, and future plans to upgrade or replace the Enterprise Resource Planning (the business critical integrated management information system, currently provided by CGI).

The scale and critical nature of the projects, and inherent legal and procurement risks, will add further strain to leadership capacity within the Council. We note within "Financial Sustainability", page 48, that a further programme of work is planned to maximise income and deliver substantial savings. Council leadership need to balance the numerous demands on both capacity and financial resources to progress each project.

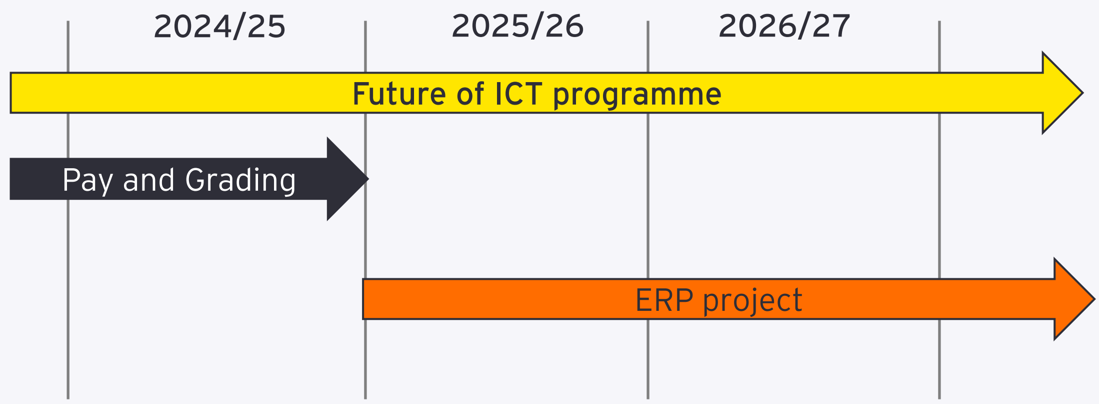
Recommendation 30:

The Council must ensure that clear roles and responsibilities are established in a robust accountability framework.
(Grade 1)

The Council's Chief Executive has recently announced plans to retire

In February 2024, the Council's Chief Executive announced plans to retire. The Chief Executive has been in post for ten years and therefore holds considerable organisational knowledge and corporate memory. While it is therefore important that the Council establishes appropriate transition arrangements, we consider that this represents a further risk to the capacity at leadership level.

Exhibit 13: The Council expects to implement major changes to its workforce and ICT network over the next 3-5 years that will stretch organisational capacity



Source: *Glasgow City Council*

The Council has governance arrangements in place to oversee arms-length bodies, known as the "Council Family"

Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on funding external bodies and "following the public pound".

The Council maintains a number of Arms Length External Organisations (ALEOs) as individual legal entities, either constituted as a Limited Liability Partnership (LLP) or a company, some with charitable status.

The Council's ALEOs operate their own governance frameworks and Boards, to which Elected Members are appointed.

The Council has established arrangements to govern its relationship with the ALEOs to ensure that services that are delivered for the Council or on its behalf continue to be effective and to hold ALEOs to account for delivery of these services.

In May 2023, the Council's Operational Performance and Delivery Scrutiny Committee (OPDSC) considered an update on arrangements to monitor ALEO performance and governance, based on recommendations with the Council's most recent "Family Review" of Glasgow Life.

The ALEO Governance Framework sets out the annual programme of reporting, including how each ALEO aligns to one or more of the grand challenges within the Strategic Plan and is based on the contractual arrangements that specify the services to be delivered by the ALEOs.

Further improvements are intended to be made as the performance manual and reporting arrangements are finalised. It is expected that ALEOs will be required to submit financial and operational performance reports on a quarterly basis.

The Council reports on corporate risks on a six monthly basis, which incorporates strategic ALEO risks

The Finance, Audit and Scrutiny Committee consider a report on the corporate risk register every six months.

The Risk Management Forum, an officer led group, is responsible for reviewing and updating the corporate risk register. The most recent update identified 12 very high rated risks, including:

- Fiscal uncertainty;
- Poverty and inequality;
- The impact of the rising cost of living;
- ICT security;
- Failure to successfully implement Pay and Grading Scheme;
- Failure to fulfil duty of care to children and vulnerable adults; and
- Failure to deliver the Capital Investment Programme

Each quarter, the Risk Management Forum selects one risk from the CRR for in-depth review. This is designed to ensure that the description and focus of each risk remains appropriate, it is assessed appropriately and all mitigating actions have been identified.

The Finance, Audit and Scrutiny Committee self-assessed it's arrangements against updated good practice guidance in 2022/23

In October 2022, CIPFA updated its guidance on good practice for local authority audit committees. At the Council , the role of the audit committee is fulfilled by the Finance, Audit and Scrutiny Committee.

The Committee considered a formal self-assessment of its arrangements against the CIPFA guidance in March 2023. The self-assessment identified a number of areas of areas of improvement:

1. The good practice guidance suggests separating the roles of the audit committee and scrutiny function. In practice, the OPDSC performs the scrutiny role at the Council, and the assessment therefore suggested removing this role from the name of the committee.
2. CIPFA recommends that each Council audit committee should include at least two co-opted independent members to provide appropriate technical expertise in areas such as finance and governance. The Council's self-assessment noted that the committee has the opportunity to co-opt independent members within its remit, but that this has not been taken up to date.
3. The Council provided induction training for members, but there are not yet arrangements to identify and deliver a programme of training requirements.
4. There are no arrangements in place to hold private meetings with the internal and external auditors, without management being present.

▶ Recommendation 31:

The Council's self-assessment identified a range of improvements to the audit committee arrangements. Improvement actions should be adopted prior to the next committee cycle. **(Grade 2)**

Use of resources

Our overall assessment: Amber

The Council has taken the opportunity to review and refresh its performance management arrangements to inform reporting on progress against the Strategic Plan 2022-27. This meant that the established approach in place to produce an annual performance report was not fulfilled in 2022/23 and work is ongoing on the development of a performance dashboard. As a result, we were unable to conclude that the Council had fully met the requirements of the Statutory Performance Direction in 2022/23.

The Council's performance against the Local Government Benchmarking Framework highlights strong performance overall. Arrangements are in place to consider and respond to areas where performance is lower than the national average.

The Council has not yet produced a Performance Report summarising outcomes against the revised Strategic Plan

The Council's updated Strategic Plan 2022-27 is mission based, marking a step change in the way that ambitions are communicated. The Council took the opportunity to refresh the performance management framework that underpins the plan, allowing it to respond to an Internal Audit of performance management.

In August 2023, the OPDSC considered the first iteration of a Performance Manual, but work is ongoing on the development of a performance dashboard to support scrutiny of performance. In 2022/23, the Council did not produce an Annual Performance Report against the outcomes within the revised Strategic Plan.

We note within the Best Value Thematic Report that performance reporting against the Plan to date has primarily focused on the commitments that services have prioritised to respond to the cost of living crisis. More recently, reporting has widened to reflect key priorities in 2023/24, but we noted (Exhibit 15) that there is not yet a mechanism in place to ensure that every measure within the Strategic Plan is subject to scrutiny.

We were unable to conclude that the Council fully met the requirements of the Statutory Performance Direction in 2022/23

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report:

- performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments; and
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

The Council continues to report a range of performance information to stakeholders, including the Glasgow City Region

Performance Report and individual service performance reports. It has a performance section on its website, which includes information on recent Best Value reports and improvement plans. While the Council continues to report a range of performance information to elected members, public reporting was less effective in 2022/23.

We will continue to monitor and consider the adequacy of reporting against the statutory requirements in 2023/24.

Recommendation 32:

The Council should revise its performance reporting arrangements to ensure it is compliant with statutory performance indicator requirements. **(Grade 1)**

The Council continues to report on performance against the Improvement Service's Local Government Benchmarking Framework (LGBF)

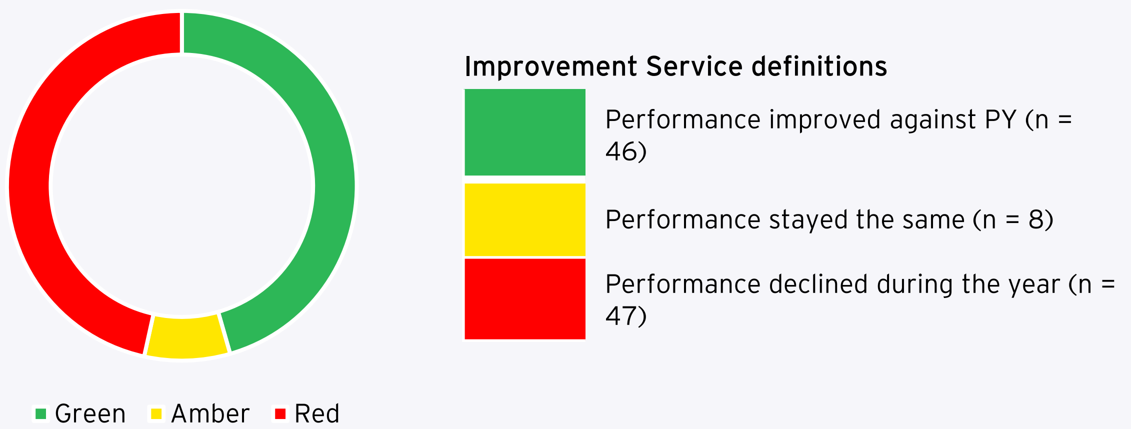
In April 2023, the OPDSC considered an overview of the Council's performance against the suite of measures reported by the Improvement Service as part of the LGBF.

The Council's reporting to elected members focuses on the indicators within the top and bottom quartiles. The Strategic Planning and Performance Working Group, comprising performance leads across the Council Group also regularly scrutinise LGBF outliers to understand exceptions.

A number of key outcomes reflect the demographic pressures that impact the Council. For example, areas where the Council is in the bottom quartile include:

- The cost of pre-school education, which reflects the Council's investment in early learning to address child poverty;
- The percentage of pupils gaining more than 5 awards at level 5 (61% against the Scottish average of 69%). The Council note that when deprivation is factored in, performance is above the Scottish national average at both Level 5 and Level 6; and
- The net cost of street cleaning is the second highest in Scotland at £21.55 per person, reflecting investment in bin sensor technology and a bin replacement strategy.

Exhibit 14: Glasgow City's performance against other Scottish local authorities broadly stayed the same in 2022/23.



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Other areas are below the national average. These include:

- 27.3%% of all waste is recycled in Glasgow which is the third lowest rate of recycling across all councils. The average rate of recycling for Scotland is 42.7% of all waste;
- Home care costs per hour for people aged 65 and over are £39.57 against a national average of £28.57; and
- The costs per attendance at sports facilities and library visits significantly exceed the national average.

Areas that significantly exceed the national average performance include:

- The highest paid employees who are women (61.5% against the Scottish average of 58.9%);
- The proportion of properties receiving superfast broadband (98.4%);
- The level of investment in economic development and tourism per 1,000 population (£183,975 against the national average of £119,388); and
- Glasgow has the 4th lowest percentage of people recorded as earning less than the Living Wage at 11.3% against a national figure of 14.4%.

The Council has highlighted that ICT security remains a significant risk

There continues to be a significant risk of cyber-attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, Audit Scotland asked us to consider risks related to cyber security at audited bodies.

The Council's internal auditors considered the response to the investigation into a major cyber-attack at the Scottish Environmental Protection Agency (SEPA) in August 2023.

The Council has developed a cyber security improvement action plan, and an ICT/Cyber Business Continuity Incident Response and Communication process has been developed to allow CGI to notify senior Council officers of any incident, including those which occur out of working hours.

There is a documented IT risk and issues management process, which includes risk acceptance. Records of the risks that have been proposed for acceptance and the decision of the Council's Senior Information Risk Owner (SIRO) are also maintained. Risks proposed for acceptance are presented at the combined Council and CGI Risk and Issues Forum.

The internal auditors noted that whilst the Council did not formally assess its cyber security posture against the actions for the wider public sector included in the SEPA report, the SIRO did complete an informal assessment. As a result of this a new process has been introduced to allow CGI to contact senior Council officers, including out of hours contact details.

The report identified three recommendations and noted that the implementation of the Council's internal cyber security action plan was ongoing, but full implementation will address the specific findings of the SEPA report as they relate to the Council.

The action plan is being monitored by internal audit. While governance arrangements are place, including reporting to the Extended Information Security Board

(EISB) and Digital Board. We note that the completion of the action plan was slower that the initial dates agreed.

The Cyber Attack Response Plan actions were initially due to be complete at 31 August 2023. A revised target completion date was set for 31 December 2023. While the service report that this action has now been completed, internal audit have not yet verified completion.

Internal audit also made a high-risk recommendation within a 2021/22 review of IT Assurance. This action was expected to be implemented in February 2022. At the most recent update against outstanding audit recommendations (January 2024) we note that the action has still not been fully implemented.

▶ Recommendation 33:

The Council must prioritise the implementation of recommendations in relation to cyber security as a matter of urgency. **(Grade 1)**

The recent SAP outage as explained on page 34 has highlighted the importance of having a robust ICT control environment and the significant impact that loss of access to systems can have both operationally and reputationally. Looking ahead the Council has a number of significant ICT reliant projects including system changes and the Future of ICT project. It is therefore imperative that improvements to the general ICT environment are made at pace to ensure the successful delivery of these key strategic projects.

The Council has set an ambitious target for the City to become net zero by 2030

Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements to respond to climate change, as part of a developing programme of work.

The Council published its Climate Plan in June 2020 as a local response to the Climate and Ecological emergency. The Council's Strategic Plan 2022-27 includes a "Grand Challenge" to Fight the Carbon emergency in a just transition to a net zero Glasgow. This includes the aim to achieve net zero carbon emissions across the city by 2030.

Progress against the Council's Climate Plan is reported to Elected Members annually. Separate arrangements are in place to report on progress against the Grand Challenge within the Strategic Plan, including an annual update to the Council's Operational Performance and Delivery Scrutiny Committee.

On a regional basis, the Council hosts the Sustainable Glasgow multi-sectoral partnership, which is leading on climate change policy and sustainability and has a key role in the regional adaptation initiative Climate Ready Clyde.

We considered the Council's arrangements for climate change as part of our wider work on the Best Value thematic report.

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Best Value

As part of our responsibilities under the Code of Audit Practice, we prepare a separate report on annual thematic topics prescribed by the Accounts Commission. For 2022/23, the Accounts Commission directed auditors to report on the effectiveness of the leadership of the development of strategic priorities. Our thematic review concluded that the Strategic Plan 2022-27 provides a clear vision and that longer term strategic planning is based on community engagement and is aligned with community planning partners. The Plan is mission-based, and therefore intentionally ambitious and stretching, containing over 230 individual commitments to be delivered by 2027.

Within the thematic review and our wider scope work we do, however, note that there is a need to further develop the performance reporting and alignment of delivery plans to support the implementation of the Plan and demonstrate how key priorities will be delivered, including the Council's longer-term climate ambitions.

Basis for our assessment

Under the Code of Audit Practice June 2021, we perform an annual programme of work in relation to Best Value and wider scope responsibilities. This work includes reviews based on annual thematic Best Value topics prescribed by the Accounts Commission (the Commission).

For 2022/23, the Accounts Commission directed auditors to report on the effectiveness of the leadership of the development of strategic priorities. Our key conclusions against the work programme set by the Accounts Commission are outlined in Exhibit 15.

As auditor of the Council, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities.

In forming this judgement, we draw upon the thematic Best Value work and our wider planning work, alongside the work conducted to support our wider scope responsibilities, and specifically:

- Documentation review and interviews with officers;
- Our consideration of the Council's financial planning processes including the financial planning and budget monitoring reports;
- Governance arrangements, including monitoring reports on the use of resources and scrutiny arrangements; and
- Our assessment of performance reporting to the Council, including observation of scrutiny and policy committee meetings.

The Council can demonstrate that it has the key elements needed to deliver Best Value in place

The Council has reviewed and updated its longer-term strategic planning based on the political commitments of the Administration, and wider engagement and partnership working with key stakeholders. Work is underway to refresh the frameworks that will support delivery, including a review of performance management arrangements and a wider corporate governance review.

Further work is required to ensure that priorities, including commitments within the Strategic Plan, are affordable and reflected within the Council's delivery plans including the Medium Term Financial Plan and the Council's Investment Strategy.

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Best value thematic

Exhibit 15: The key findings from our Best Value Thematic Review

- The Council has set out a clear vision and priorities within the Strategic Plan 2022-27, based on its response to four 'Grand Challenges'. The grand challenges align with the Community Plan and have been developed and refined based on strong engagement with partners and communities. However, the Plan outlines over 230 commitments to be delivered by 2027. Many areas will be very challenging to deliver within the planned timescales and resources. An annual review process is in place to manage expectations about delivery, where decisions will be required to prioritise current commitments.
- As we note within "Use of Resources" performance monitoring arrangements are evolving to reflect the complexity of the Strategic Plan and further work is required to ensure that priorities, including commitments within the Strategic Plan, are affordable and reflected within the Council's delivery plans including the Medium Term Financial Plan and the Council's Investment Strategy.
- The Council's Renewal and Recovery Strategy allowed it to learn from and capitalise on different ways of working during the pandemic. Flexible funding, data sharing and strong partnership working has informed the delivery of a new service, Glasgow Helps, that aims to break down organisational boundaries and focus on the needs of individuals. Other areas of innovation include the Child Poverty Pathfinder, in partnership with the Scottish Government.
- The Council responded well to the previous Best Value Assurance Report. We noted areas where the Council has continued to innovate since the completion of the improvement plan, including in its approach to, and investment in, community empowerment.

Our recommendations

1. The Council should ensure that the annual review process sufficiently refines the commitments within the Strategic Plan to clarify priorities and promote accountability for delivery.
2. The Council should ensure that performance reporting allows elected members to monitor progress against each of the commitments in Strategic Plan, against an agree set of criteria.
3. The Council should review arrangements in place to capture and reduce emissions, including Scope 3.
4. The Council should ensure that scrutiny arrangements are robust enough to support delivery of its climate ambitions.
5. The Council needs to ensure that key plans are linked to a medium term financial plan to support delivery.
6. The Council should finalise the development of a Performance Dashboard to allow elected members to scrutinise all areas of the Strategic Plan.

Appendices

A Code of audit practice: Responsibilities

Audited body responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- Preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- Maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures.
- Ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- Preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements.
- Ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

A Code of audit practice: Responsibilities (cont.)

Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- Such financial monitoring and reporting arrangements as may be specified.
- Compliance with any statutory financial requirements and achievement of financial targets.
- Balances and reserves, including strategies about levels and their future use.
- How they Report to deal with uncertainty in the medium and longer term.
- The impact of reporting future policies and foreseeable developments on their financial position.

Responsibilities for best value, community reporting and performance

Local government bodies have a duty to make arrangements to secure best value. best value is defined as continuous improvement in the performance of the body's functions. In securing best value, the local government body is required to maintain an appropriate balance among:

- The quality of its performance of its functions.
- The cost to the body of that performance.
- The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the local government body shall have regard to:

- Efficiency.
- Effectiveness.
- Economy.
- The need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on best value (2020) requires bodies to demonstrate that they are delivering best value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.

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A Code of audit practice: Responsibilities (cont.)

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed auditors' responsibilities

Appointed auditors' statutory duties for local government bodies are contained within Part VII of the Local Government (Scotland) Act 1973, as amended.

These are to:

- Audit the accounts and place a certificate (i.e., an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act.
- Satisfy themselves, by examination of the accounts and otherwise, that:
  - The accounts have been prepared in accordance with all applicable statutory requirements.
  - Proper accounting practices have been observed in the preparation of the accounts.
- The body has made proper arrangements for securing best value and is complying with its community reporting duties.
- Hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, including those relating to the audit of the accounts of a local government body.

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B Independence report

Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the reporting stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- The overall assessment of threats and safeguards.
- Information about the general policies and process within EY to maintain objectivity and independence.

Final Stage

- To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- Details of non-audit/additional services provided and the fees charged in relation thereto.
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor. We have identified no relationships that impact the audit of Glasgow City Council.

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C

Required communications

We have detailed below the communications that we must provide to the Council.

Required communications	What is reported?	Our reporting to you When and where
Terms of engagement	Confirmation by the Finance, Audit and Scrutiny Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter (December 2022) - audit to be undertaken in accordance with the Code of Audit Practice.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Annual Audit Plan - March 2023
Reporting and audit approach	Communication of the reporting scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan - March 2023
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures. ▶ Significant difficulties, if any, encountered during the audit. ▶ Significant matters, if any, arising from the audit that were discussed with management. ▶ Written representations that we are seeking. ▶ Expected modifications to the audit report. ▶ Other matters if any, significant to the oversight of the financial reporting process. ▶ Findings and issues regarding the opening balance on initial audits.	This Annual Audit Report.

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C Required communications (cont.)

Required communications	What is reported?	Our reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	This Annual Audit Report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation. ▸ The effect of uncorrected misstatements related to prior periods. ▸ A request that any uncorrected misstatement be corrected. ▸ Corrected misstatements that are significant. ▸ Material misstatements corrected by management.	This Annual Audit Report.
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist. ▸ A discussion of any other matters related to fraud.	This Annual Audit Report.
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report.

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C Required communications (cont.)

Required communications	What is reported?	Our reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	This Annual Audit Report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan and this Annual Audit Report.
External confirmations	▶ Management's refusal for us to request confirmations. ▶ Inability to obtain relevant and reliable audit evidence from other procedures.	This Annual Audit Report.
Representations	Written representations we are requesting from management and/or those charged with governance.	This Annual Audit Report.
Best value and wider scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit.	This Annual Audit Report and thematic Best Value report.

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C Required communications (cont.)

		Our reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▸ Enquiry of the Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Scrutiny Committee may be aware of.	This Annual Audit Report.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	This Annual Audit Report.
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	This Annual Audit Report.
Group matters	▸ An overview of the type of work to be performed on the financial information of the components. ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components. ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work. ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.	This Annual Audit Report
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	This Annual Audit Report.

D Timeline of communication and deliverables

Month	Audit activity	Deliverable	Timing
April	Risk assessment for Financial Statements and wider scope audit dimensions	Finalisation of 2022/23 audit	
May		Provisional Annual Audit Plan	17 May 2023
June	Walkthrough of key systems and processes	Submission of quarterly fraud return	
July			
August		Update meeting with Finance Team	
September	Year end audit fieldwork	Submission of quarterly fraud return Interim audit update	
October			
November		Final Annual Audit Plan	1 November 2023
January		Submission of quarterly fraud return	
February	Audit completion procedures	Best Value Thematic Report: Leadership and Strategic Priorities	20 March 2024
March		**Annual Audit Report**	26 March 2024

E Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1.	**Financial statement timetable** The Council has been working on a delayed financial statement and audit timetable for the last 4 years. The focus for future years is returning to a timetable in line with the statutory requirements however this will require a multi-year plan.	Management should ensure that a realistic timetable for both financial statement production and the audit are developed. This should ensure that there is sufficient capacity within the finance team to support this alongside business as usual activities. Grade 1	**Response:** The Council will work with EY to agree the timetable for the 2023-24 accounts and audit process. This will inform the resource requirements to meet the audit. **Responsible officer:** Head of Corporate Finance **Implementation date:** June 2024

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
2.	**Financial statement working papers** The expected challenges in year one of an audit relating to understanding requirements expected from new auditors had an impact on our timetable. We will work with management to ensure that audit requirements for individual sections are fully understood as part of our 2022/23 audit debrief. This will include ensuring the sufficiency of quality assurance arrangements for working papers and ensuring technical accounting papers being ready in line with the financial statements.	Management should ensure that the 2023/24 financial statement working papers and technical accounting papers reflect the additional requirements for the 2022/23 audit and ensure that these are provided in line with the financial statements timetable. Grade 1	**Response:** The Council will work with EY to agree a timetable for the 2023-24 audit. This include ensuring that working papers, as far as possible, reflect additional requirements identified during the 2022-23 audit. Some information, particularly around valuations of PPE may require more time to implement given the timing of the 2023 accounts and audit conclusion against the 2023-24 year end. **Responsible officer:** Head of Corporate Finance **Implementation date:** June 24 but may require more time for some aspects

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
3.	**Disclosure checklist** As part of the audit process, we worked with the finance team to make enhancements to the presentation of the financial statements. We will continue to discuss good practice as part of our 2022/23 debrief and ongoing engagement with the finance team. We noted that a disclosure checklist was not completed by the Council. While we did not identify any material areas of non-compliance with Code requirements, we did identify a number of areas for enhancements to disclosures.	Management should ensure that the Code amendments are fully reflected, ideally through completion of a disclosure checklist to ensure the financial statements remain Code compliant on an annual basis. Grade 2	**Response:** The council will continue to ensure that the requirements of the Code are fully reflected in the financial statements and consider the adoption of the checklist in light of best value. **Responsible officer:** Head of Corporate Finance **Implementation date:** Ongoing – date of finalised implementation to be agreed with audit as part of 23/24 planning arrangements.

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4.	**Income and expenditure recognition** Our procedures in respect of income and expenditure recognition identified a number of errors including: ▸ Expenditure recognised in 2022/23 which related to prior years which had not been accrued for of £2.1 million; ▸ Expenditure relating to 2022/23 which had not been accrued for totalling £0.9 million; ▸ Internal recharges which had not been properly eliminated resulting an overstatement of income and expenditure of £4.6 million; ▸ capital grant income which had been incorrectly recognised when no eligible activity had yet taken place in respect of this grant. This resulted in a reduction in grant income of £0.465 million; and ▸ Common good rental income which had been omitted from prior year financial statements of £140,000.	Management should ensure that a lessons learned review is performed of the income and expenditure errors identified through the 2022/23 audit to identify improvements and ensure they do not occur in future years. Grade 2	**Response:** The council will undertake a review and, through the Financial Management Steering Group, share the lessons learned to minimise a re-occurrence. **Responsible officer:** Head of Corporate Finance **Implementation date:** April 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
5.	**Accounting for depreciation** We identified two errors in respect of accounting for depreciation: ▶ The Council adopts a policy of not charging for depreciation or amortisation in the year of an asset's purchase. In accordance with the accounting code, depreciation should be charged over an asset's useful life, starting from when the asset is available for use. ▶ The Council's valuers assess buildings useful lives as part of asset valuations performed. These updated useful life assessments are not then utilised to update the Council's fixed asset register and therefore results in depreciation charged not being based on the latest useful life assessment.	The Council should ensure that depreciation is accounted for in line with Code requirements. This should include ensuring that depreciation is charged when an asset is brought into use and ensure that asset useful lives are subject to regular review with appropriate consideration given to updated useful lives included within asset valuation reports. Grade 1	**Response:** The Council assigns a uniform operational date of 31 March for all new build and refurbishment works, completed within a particular financial year. This is considered an efficient and pragmatic approach reflecting systems limitations and exact operational dates. In the event that any future extensive refurbishment works project is identified to materially extend the useful life of an asset, the Council will create a new asset and rebase its useful life for accounting purposes. **Responsible officer:** Head of Corporate Finance **Implementation date:** June 2024

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
6.	**Bank accounts** The Council holds a large number of bank accounts including accounts which they hold on behalf of schools, group entities and social work clients. The reconciliation arrangements do not currently identify active bank accounts or, in many cases, the purpose of the account.	The Council should continue to take steps to mitigate the risk of fraud from inactive accounts. Grade 2	**Response:** The banking team have been working with the council's bankers (RBS), Education, and the Social Work banking team to review these accounts. They are split into 3 Customer Identification Numbers (CINs) by RBS and the Education and Social Work accounts are now in a separate CIN from the main GCC accounts. The banking team have identified those accounts that have not been used by Education for a considerable period of time and are working to gain agreement to close them. Social Work and the banking team have been working with RBS on a similar exercise under the Social Work CIN. Work on this is ongoing and progressing well. **Responsible officer:** Head of Customer Operations/Head of Corporate Finance **Implementation date:** Ongoing – in line with business as usual

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
7.	**Journal review** During our review of the financial controls processes, we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. An exercise is performed to review journals posted over £50,000 after each period by a senior officer. We have outlined on page 82 the future changes to financial and other related systems the Council will undertake. New systems should have fully integrated control functions to ensure segregation of duties, specifically approval of journals posted by management by a separate individual. In the interim, management should ensure risk based arrangements are in place to mitigate the more material risks associated with lack of approval in advance of journal posting.	While our audit work did not identify any indications of management override, we recommend that interim arrangements are put in place to review or authorise journals before posting and that the Council ensures that new systems include the functionality to have fully integrated control functions to ensure segregation of duties. Grade 1	**Response:** The council already has a process for independently reviewing journals over £50,000 after each period end by a senior officer will agree with audit any further interim changes required as part of 23/24 audit planning. **Responsible officer:** Head of Corporate Finance **Implementation date:** Ongoing – to be discussed as part of 2023/24 audit planning

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E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8.	**Valuation updates** Due to the scale of the Council's estate, valuations are performed throughout the financial year with a final check at the balance sheet date to ensure the value remains appropriate. Despite this check at the balance sheet date being performed, we noted material differences in valuations due to forecast valuation data being used when more up-to-date information was available. We further noted that one instance where an extension to a building completed in year was not reflected in the valuation of the asset.	The Group and Council should ensure that valuations are properly assessed at the balance sheet date to reflect all information available including the latest market information. Management should ensure that City Property have details of all capital additions to assets due to be revalued in year to ensure they can be reflected in valuations. Grade 2	**Response:** The indicated disparity between forecast and actual valuation rates only occurred due to recent inflationary spikes. The actual valuation rate for March is published too late for the Council to meet the statutory deadline for submission of its unaudited annual accounts. Notwithstanding, the Council's valuers have already undertaken to review the valuation rates applied for FY23/24 to ensure these reflect the most up to date forecast rates, published at effective for the year end date of 31 March 2024. The Council's finance team have already implemented a process which ensures that valuers are informed of any significant improvement/extension works recently undertaken. **Responsible officer:** Valuation and Disposals Manager (City Property); Head of Corporate Finance **Implementation date:** June 2024

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E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
9.	**Valuation review** City Property have a detailed valuation template in place to document the valuation calculations and judgements applied in reaching valuations. We identified a number of inconsistencies in how this template was completed including omissions of information or old data from previous valuations not being updated. We also noted inconsistencies in judgements applied by valuers within City Property. While individual valuers should apply their own professional judgement, checks should be performed to ensure some level of consistency in approach. Both of these matters have led to some challenges where valuers have now left City Property as key judgements made were not appropriately documented within valuation reports.	City property should implement a more formal, robust peer and supervisor review process, including but not limited to pre-emptively identifying the issues raised in this report. Management should also satisfy itself these checks have been completed in line with its responsibilities around use of specialists. Grade 1	**Response:** The Council's valuers have already extended their peer review process to ensure all valuations in are subject to secondary review, to ensure consistency in both application and approach. **Responsible officer:** Valuation and Disposals Manager (City Property) **Implementation date:** June 2024

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
10.	**Valuation programme and assets not revalued** In the last two years, the Council has had to perform additional asset valuations out with their planned asset valuation programme to ensure those assets not subject to valuation remain materially correct. In 2021/22, Group assets were not subject to consideration through this assessment resulting in a prior period adjustment.	Management should ensure that Group assets are included as part of the review of the rolling asset valuation programme and assets not subject to valuation. Grade 2	**Response:** The Council has undertaken an unprecedented high number and frequency of asset revaluations, in order to address the impact that the recent inflationary spike had on its wider asset portfolio. It is neither economic nor practical to revalue all assets within a particular year. The reported change to the only single group asset of significance was below the FY21/22 audit materiality level and the asset was appropriately scheduled for valuation under the FY22/23 programme. The council will ensure that group assets are considered as part of the rolling revaluation programme. **Responsible officer:** Head of Corporate Finance **Implementation date: June 2024**

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
11.	**Heritage asset existence** Existence testing of heritage assets is performed by museum staff following an internal audit recommendation however this is based on sample of 10 items. Given the volume of the collection, we recommend that this work is extended to a higher number and performed to align with the Council's year end. Specific confirmation of the exercise performed should be provided to central finance to consider as part of the financial statement working papers.	Management should extend their own existence testing performed in respect of heritage assets to ensure the sample size is commensurate to both the volume and value of heritage assets. Confirmation of completion of this exercise alongside a summary of work performed should be provided to central finance. Grade 2	**Response:** The Council will consider the most effective means to enhance testing procedures and volumes. **Responsible officer:** Head of Museums and Collections **Implementation date:** June 2024

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E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
12.	**Heritage asset records** Heritage assets hold significant value both from a financial and non-financial perspective, not just to the Council but to wider stakeholders across Glasgow, Scotland and beyond. Over the last 30 years, significant work has been undertaken to modernise records and ensure consistent records are held for the extensive collection managed by the Council through ALEO, Glasgow Life. The volume of work still required to fully catalogue the collections is significant.	Recognising the significance of the collections and the significant work required to catalogue in a consistent manner, management should have a clear timetable in place for completion of the cataloguing projects which takes into account both resources available and the risks associated with not having a complete collection catalogue. This plan should give due consideration to what level of detail should be held, the costs associated with the project and how and when regular updates to members should be provided. Grade 1	**Response:** The Council continue to update and maintain its cataloguing of the collections in line with the Collections Documentation Policy and Plan 2024-29. **Responsible officer:** Head of Museums and Collections **Implementation date:** Ongoing up to 2029

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
13.	**Infrastructure assets** The statutory override in place for infrastructure assets was scheduled to end at 31 March 2024 however the Scottish Government has now consulted on extending the override to 31 March 2025. The extension continues to carry an expectation that Councils will continue to address information deficits to ensure timely adoption of future Code requirements once a more permanent solution is delivered.	While there remains some uncertainty around the future accounting requirements for infrastructure assets, the Council should ensure that in line with the Scottish Government request, work is undertaken to address information deficits to ensure timely adoption of the permanent solution. Grade 1	**Response:** The council will continue to liaise with other councils, regulatory bodies and the Scottish Government to develop a permanent solution and an appropriate implementation period. **Responsible officer:** Executive Director of Finance **Implementation date:** Ongoing - date of finalised implementation to be agreed with audit as part of 23/24 planning arrangements.

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Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
14.	**PPE Existence** Misclassification of a recycling facility which had subsequently been disposed of resulting in an adjustment of £0.15 million. Capitalisation of low value items including moveable IT accessories which are challenging to prove ongoing existence and are likely to have limited useful lives. No existence testing was performed by management and similarly, an impairment assessment had not been performed.	The Council should ensure that: ▸ Asset owners should be assigned and reminded of their responsibilities to maintain detailed supporting records for Council assets; ▸ An annual sample check of existence of equipment is performed; ▸ An impairment assessment is performed to identify assets which may no longer be in use or may be damaged/lost; and ▸ A review of the policy for capitalising equipment is performed to consider the approach for low value moveable equipment. Grade 1	**Response:** The council will reissue guidance on capitalisation and existence criteria to the Financial Management Steering Group and Capital Board to minimise reoccurrence. **Responsible officer:** Head of Corporate Finance **Implementation date:** April 2024

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E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
15.	**RAAC assessment and impact on asset valuations** The Council has completed surveys on their education estate with only one school identified as containing RAAC. Work is ongoing for the remainder of the Council and Group estate with 12 properties still subject to survey with 3 buildings subject to closure until further investigation is performed.	The Council should ensure complete surveys of their estate as a matter of urgency to ensure all buildings impacted by RAAC are identified. The results of these surveys should then be factored into any valuation or impairment assessment performed to inform the 2023/24 financial statements with ongoing monitoring after the balance sheet date. Grade 1	**Response:** The council is progressing the completion of outstanding surveys and will consider these as part of the 2023-24 accounts. **Responsible officer:** Divisional Director, Property, Housing & Major Projects/ Head of Corporate Finance **Implementation date:** June 2024 (as surveys are completed)

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
16.	**Common Good Fund reporting** While regular updates on the Common Good fund financial performance are reported to the Finance and Audit Scrutiny Committee, we note that updates on the steps taken by the Council to comply with the Community Empowerment Act requirements have not been provided. We further note that the Common Good Fund disclosed within the financial statements does not include all assets identified as being Common Good. This is in line with the Council's common good fund policy whereby the Council continues to use and account for common good assets in an operational capacity. All income and expenditure associated with these assets is charged to through the Council's financial statements and only if a surplus is made in respect of these assets is a transfer made to the Common Good Fund. This approach was last considered by the Finance and Audit Scrutiny Committee in February 2019.	Management should review the Common Good fund reporting to ensure that: ▸ Updates are presented on a frequent basis to note progress in maintaining an accurate and complete common good fund asset register ▸ The Council's policy for accounting for Common Good fund assets is reviewed in conjunction with both legislative requirements and the latest LASAAC guidance published in 2023. *Grade 2*	**Response:** The reporting of common good will be reviewed to include updates on the review of titles and also any changes required resulting from the latest LASAAC guidance. **Responsible officer:** Head of Corporate Finance/Head of Legal **Implementation date:** December 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
17.	**Rights and obligations** We identified one asset, City Building Training Academy whereby the Council were unable to demonstrate legal ownership. This related to an asset whereby the Council and related group entities had agreed arrangements for a new building to be constructed by the Council and a revised lease arrangement to put in place. While Committee approval was obtained, the Group has failed to ensure that the legal agreements have been put in place to match the nature of the arrangements in place. There is therefore now uncertainty regarding the legal ownership of the building.	The Council Group should ensure that the legal agreements in respect of this arrangement are corrected urgently. The Council should perform a lessons learned exercise to identify any other assets where the appropriate legal arrangement have not been put in place. Grade 2	**Response:** The Council will progress the completion of the appropriate legal structure and assess any similar outstanding. **Responsible officer:** Head of Corporate Finance/Head of Legal **Implementation date:** December 2024

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E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
18.	**PPP schemes and central documentation storage** In respect of the Council's PPP scheme, the scheme is now in its 24th year of operation and therefore understandably, individuals' involved in the establishment of the original models and contract are no longer in post. The responsible individual for reviewing the PPP accounting entries has changed twice in recent years. This has resulted in a loss of knowledge of how the contract should operate and how the models are constructed. Significant delays were encountered in receiving all information in respect of the PPP including original contracts and operator models. This issue has been replicated through other audit procedures whereby supporting evidence was not available to all of the finance team due to different shared drives being used.	The Council should ensure that all documentation to support financial statement balances including relevant contracts and leases are retained in a central location to ensure they are readily available both for new finance team members and to support audit requests. Grade 1	**Response:** The Council will consolidate existing data in a secure repository for future reference. **Responsible officer:** Head of Corporate Finance **Implementation date:** June 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
19.	**SAP Outage lessons learned** Internal audit have raised concerns regarding disaster recovery procedures in place. These concerns were proven following the SAP system outage where there were repeated challenges in restoring the system. While the Council were able to successfully implement disaster recovery procedures, they should assess any improvements required to procedures and ensure relevant processes	Management should ensure that appropriate disaster recovery plans are in place which include regular testing of back ups for key systems. Disaster recovery plans should be reviewed following recent implementation to identify further areas for improvement. Grade 1	**Response:** Since the SAP outage, CGI has conducted a programme of application back up and restore testing, across over 100 servers. The council will continue to progress the development of disaster recovery to support system resilience **Responsible officer:** Head of Strategic Information, Innovation and Technology **Implementation date:** Ongoing and as agreed as part of future IT arrangements

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
20.	**Monitoring the delivery of the 2024-25 budget** The Council's 2024/25 budget sets out a phased approach to bridge the £107.7 million funding gap over the next three years. Most of the gap in the first year of the plan is expected to be met by: ▸ increases in fees and charges; and ▸ plans to redesign services. It is critical that savings are tracked to provide assurance to elected members on the pace and impact of the agreed programme of measures.	The Council should establish reporting arrangements to monitor the achievement of savings within the three year budget. This should include an assessment of the return on investment against key projects. *Grade 1*	**Response:** The council currently reports the achievement of savings in the monitoring reports considered by FASC. Detailed reports are also considered by the Council Management Group. These processes will continue for the 2024-27 budget savings and investments. **Responsible officer:** Director of Financial and Business Services **Implementation date:** Current processes will continue

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
21.	**Use of Reserve balances: Budget Support Fund** The Council took advantage of financial flexibilities available to Scottish local government in 2022/23 to create a Budget Support Fund. The Fund is intended to underpin the delivery of savings options, including associated severance costs. There has been limited reporting on the use of the Fund to date, but we understand that the Council expects that £49.5 million will be used by 31 March 2024, leaving a balance of £60 million to support the three year budget to 2026/27. As part of the approved 2024-27 savings plan, further contributions will made to the fund in the next two financial years.	The Council should set clear criteria for the use of Budget Support Fund balances and report on the use of the Fund within regular budget monitoring reports. *Grade 1*	**Response:** The criteria for use of the fund were set out in the report to CAC on 23rd March. Any use of the Budget Support Fund has been approved at CAC and reported to FASC through the regular revenue monitoring reports. **Responsible officer:** Director of Financial Business Services. **Implementation date:** Current processes will continue.

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
22.	**Longer Term Financial Strategy** We recognise that three year budget approved in February 2023 represented a step change in the Council's ability to meet the unprecedented financial pressures and challenges facing Scottish Local Government. The Council has, however, not yet translated the budget into a longer term financial strategy to assess the impact of a number of scenarios on the reserves position, including significant areas of uncertainty such as future income projections, the cost of implementation of the new pay and grading structure, and areas of financial risk such as the ability to deliver all savings in full and the current level of overspend on homelessness services reported by the Council's partner, the Glasgow Integration Joint Board.	There is a need to translate the three year budget into a longer term strategy to model the impact of a range of risks both on the Council's reserves and the priorities set out in the Strategic Plan. *Grade 1*	**Response:** The three year budget savings approved in February 2023 align to the remaining period of the Council and the Strategic Plan in 2027. The approved savings will result in planned contributions to the Budget Support Fund which was established to support future years' budgets including the management of financial risks. These risks will continue to be assessed and considered as part of future years' budgets. **Responsible officer:** Executive Director of Finance **Implementation date:** Ongoing as part of annual budget processes

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No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
23.	**Budget Monitoring Reports** In our view, there is scope to improve the transparency, and therefore scrutiny, of financial monitoring reports by focusing on key factors that support elected member scrutiny, including: ▸ Information on key variances and areas of financial risk; ▸ Risk assessed progress against saving targets; and ▸ The projected impact of service outcomes on the General Fund reserve, and Budget Support Fund.	The Council should review the content and focus of budget monitoring reports to ensure that they reflect key indicators to monitor financial resilience and support elected member scrutiny. *Grade 2*	**Response:** A review of Monitoring Reports will be incorporated into the next FASC Self-assessment review to seek elected members views on changes to the report which would aid scrutiny. **Responsible officer:** Director of Financial and Business Services. **Implementation date:** December 2024
24.	**CIPFA Financial Management Code** The Council's Finance Department conducted a self-assessment against the CIPFA Financial Management Code, which was considered by the FASC in April 2023. This identified only one area for improvement, relating to governance arrangements within an ALEO, City Building. Following the completion of improvement actions identified during the 2022/23 audit, the Council should update its consideration against the good practice guidance.	The FASC should consider an updated self-assessment against the Financial Management Code as part of the wider improvement actions following conclusion of the 2022/23 annual accounts. *Grade 2*	**Response:** The council will update the self assessment as part of the 2023/24 annual accounts. **Responsible officer:** Head of Corporate Finance **Implementation date:** June 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
25.	**National Fraud Initiative** At the date of drafting this report, 3,127 matches have been investigated and 10 errors have been identified to date with a value of £35,317. There has been less progress on the follow up of matches, particularly relating to payroll, creditors and Companies House. The Council has noted that this approach is in line with its internal approach to prioritisation based on its assessment and experience of the likelihood of matches resulting in potential savings. In addition, the team has indicated that the completion of the Corporate Fraud Workplan is at risk within the Mid-Year report.	The Council should formally agree a prioritisation of actions related to the NFI programme internally and through engagement with Audit Scotland, as the leader of the NFI programme in Scotland. *Grade 2*	**Response:** Similar to other Council teams, there are resource pressures within the Internal Audit and Corporate Fraud team. However, this will be kept under continuous review to ensure resources are deployed and targeted at priority areas to maximise impact. **Responsible officer:** Director of Financial and Business Services **Implementation date:** Ongoing
26.	**Monitoring of Investment Programme** The Council has a significant programme of investment, typically spending over £140 million annually. The Council's capital programme supports key investments that will support delivery both of the Strategic Plan, and key strands of the three year budget. The Council reports on progress against the investment programme quarterly. The nature of the projects mean that they straddle financial years, but current reporting arrangements do not reflect milestone dates. In addition, the reports are very narrative-based and provide a level of detail that may undermine effective scrutiny.	The Council should ensure that capital monitoring arrangements provide clear and concise reporting against individual programme progress and budgets. *Grade 2*	**Response:** A review of Monitoring Reports, including capital monitoring, will be incorporated into the next FASC Self-assessment review to seek elected members views on changes to the report which would aid scrutiny. **Responsible officer:** Director of Financial and Business Services **Implementation date:** December 2024

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
27.	**Financial Management Capacity** The capacity of the finance team does not reflect the difference in both scale and complexity of the Council compared to other local government bodies. This creates a significant key personnel dependency and lack of sufficient time to adequately address technical accounting requirements, such as those around PPE valuations sale and leaseback transactions and equal pay accounting. This pressure will continue to increase in the next four years as aged systems require updating and replacing, and new accounting standards create additional work which falls to a small number of sufficiently skilled accountants.	The Council needs to critically reassess the sufficiency of its financial management capacity in the context of audit findings, the underlying financial statement control weaknesses, and the anticipated challenges going forward. *Grade 1*	**Response:** Financial Services regularly reviews its workforce planning requirements in the context of demand but also has to take into account budget capacity. There is regular discussion around support for key projects and finance officers are assigned to reflect both the demands and experience required to support projects. This approach will continue with additional resource considered where appropriate. The recent audit by EY was significantly more resource intensive for council staff in part due to the requirement for EY to audit opening balances and the additional associated work for a Year 1 audit. The resource impacts for the 2023-24 audit will be considered once the audit plan is available. **Responsible officer:** Director of Financial and Business Services **Implementation date:** June 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
28.	**Annual Governance Statement** The Council's Annual Governance Statement does not fully meet the requirements of the Delivering Good Governance in Local Government Framework. While the current Statement is transparent about the significant governance issues that have been responded to during the financial year, it does not include a clear action plan showing actions taken, or proposed, to aid accountability.	The Council should review the content of the Annual Governance Statement against the requirements of good practice to ensure that risks and accountability are fully explained. *Grade 2*	**Response:** We will review the AGS against best practice guidance each year as part of its development for the annual accounts and update the statement accordingly. **Responsible officer:** Head of Internal Audit **Implementation date:** Ongoing
29.	**Significant governance actions** The City Building improvement plan contains 76 individual actions. To date, 9 of the actions have been fully closed following audit confirmation, while a further 35 are assessed as complete by management. Further work is underway to resolve internal audit concerns in relation to the ALEO's Servitor system upgrade. We also note that, at the time of drafting this report, the City Building Financial Statements for 2021/22 are due to be concluded imminently.	The improvement actions in relation to the significant governance matters at City Building must be concluded at pace. *Grade 1*	**Response:** The Council is working with Wheatley Housing Group and City Building to progress the action plan as a matter of priority. **Responsible officer:** Director of Financial and Business Services **Implementation date:** June 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
30.	**Organisational capacity** The Council has plans to transform its digital and ICT infrastructure, alongside: ▸ the implementation of a pay and grading scheme ▸ Projects to develop untested new income streams; and ▸ Deliver substantial savings over the net three years. Projects of this scale will significantly challenge the leadership and organisational capacity of the Council. The Council must therefore ensure that it has the right project management office function to support delivery, including a team with the appropriate capacity and capabilities. Arrangements to report to elected members will be critical to ensure that decisions are based on quality data.	The Council must ensure that clear roles and responsibilities are established in a robust accountability framework. *Grade 1*	**Response:** The council has well established governance processes for major projects and these are already in place for the Future of ICT Project and the Pay and Grading replacement project. This includes clear roles and responsibility for named officers. Both projects report to the Chief Executive and the Executive Director of Finance through these governance processes with reporting to elected members through a Political Oversight Group and committee where required. The delivery of changes related to budget savings is overseen by the Council Management Group, a senior officer group chaired by the Director of Financial and Business Services. Updates on progress are reported to the Council Management Team on a regular basis and through the detailed Revenue and Investment Monitoring Reports to FASC. This will be augmented in 2024-25 with the project to manage the implementation of the Service Redesign budget options approved by Council as part of the 2024-25 Budget. This will include a political oversight group to be chaired by the City Treasurer. **Responsible officer:** Director of Financial and Business Services **Implementation date:** Ongoing in line with policies and procedures

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
31.	The Finance, Audit and Scrutiny Committee considered a formal self-assessment of its arrangements against the CIPFA guidance in March 2023. The self-assessment identified a number of areas of areas of improvement.	The Council's self-assessment identified a range of improvements to the audit committee arrangements. Improvement actions should be adopted prior to the next committee cycle. *Grade 2*	**Response:** Since the self assessment was undertaken, officers have been consulting other local authorities via existing networks and groups (Core Cities and Scottish Local Authorities Chief Internal Auditors Group) to compare arrangements and identify best practice to assist with implementing the actions arising from the self-assessment. **Responsible officer:** Head of Internal Audit **Implementation date:** June 2024

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
32.	The Council's performance monitoring arrangements are evolving to reflect the complexity of the Strategic Plan. However, in 2022/23 we were unable to conclude that the Council had fully met its public performance reporting responsibilities under the Account Commission's Statutory Performance Indicators Direction.	The Council should consider its performance reporting arrangements to ensure it is compliant with statutory performance indicators requirements. *Grade 1*	**Response:** The council planned and co-ordinated a pause of the Annual Performance Plan (APR) in agreement with internal Audit to allow the Strategic Plan to bed in as result of our publicly reported approach; agreed with elected members, to focus on cost of living measures. Following this pause the Strategic Plan will be reported as per schedule in the APR in September 2024. This has been clearly articulated and accepted in the council's Best Value report. **Responsible officer:** Head of Corporate Policy and Governance **Implementation date:** September 2024

Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
33.	Audit Scotland has highlighted the ongoing threat associated with cyber security across the public sector. We noted that the Council has not yet completed key recommendations relating to cyber security following two internal audit reviews.	The Council must prioritise the implementation of recommendations in relation to cyber security as a matter of urgency. *Grade 1*	**Response:** The Council continues to work towards the completion of the security action plan. **Responsible officer:** Head of Strategic Information, Innovation & Technology/Head of Internal Audit **Implementation date:** Ongoing
34.	IFRS 16 must be adopted by Councils from 1 April 2024. The Council should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024. To date, the Council has not prepared a readiness assessment for IFRS 16 implementation.	The Council should prepare an IFRS 16 implementation readiness assessment in advance of the standard coming into effect in April 2024. *Grade 2*	**Response:** The council has and will continue to engage with services ALEOs and external advisors to develop our approach to implementation of this standard. Work has been initiated to review existing leases and will be developed further through 2024/25. **Responsible officer:** Head of Corporate Finance **Implementation date:** Ongoing – date of finalised implementation to be agreed with audit as part of 23/24 planning arrangements.

E Action Plan continued

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
35.	Low Emission Zone reporting The Council's low emission zone was implemented from June 2023. The Low Emissions Zone (Scotland) Regulations 2021 introduces specific financial reporting requirements for the scheme which the Council will have to comply with for 2023-24.	The Council should ensure a review of the legislative requirements is performed to ensure the statutory reporting requirements can be met. *Grade 2*	**Response:** The Council will review the requirements and incorporate the necessary information as required. **Responsible officer:** Head of Corporate Finance **Implementation date:** June 2024

F Adjusted and unadjusted differences

This appendix sets out the adjustments that were identified as part of finalisation of the financial statements.

Council Financial Statements 2022/23: Adjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	Pension asset recognition	546				(546)		
2	Unfunded pension liability			(276.3)		276.3		
3	Sale and leaseback adjustment			(19.8)		12.5	7.3	
4	Short term investment classification from cash to short term investments		5 (5)					
5	City Parking cash balance classification from debtors to cash		4.8 (4.8)					
6	Council tax debtors/creditors reclassification		2		(2)			
7	Kirklee playing fields adjustment	(5.4)				5.4		
8	Glasgow Life insurance contribution (overstatement of income and expenditure)						0.9 (0.9)	
9	Education recharge (overstatement of income and expenditure)						1.7 (1.7)	
10	Insurance recharge						0.5 (0.5)	
11	NDR Debtor reclassification		0.6 (0.6)					
12	Understatement of revenue and expenditure						1.5 (1.5)	
	Total	540.6	2	(296.1)	(2)	(251.8)	7.3	-

Key	Description	Key	Description
NCA	Non-current assets	NCL	Non-current liabilities
CA	Current assets	CL	Current Liabilities
OCI	Other comprehensive income/expenditure		

F Adjusted and unadjusted differences

This appendix sets out the adjustments that were identified as part of finalisation of the financial statements.

Council Financial Statements 2022/23: Unadjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	Accruals settled prior to the yearend that should be removed				0.5		(0.5)	
2	Depreciation for assets acquired in year	(2.4)					2.4	
3	Amortisation for assets acquired in year and transferred from assets under construction	(0.6)					0.6	
4	Removal of duplicate depreciation on sale and leaseback assets	0.7					(0.7)	
5	Assets held for sale reclassification	5 (5)						
6	Unrecorded liabilities relating to CGI computer hardware	0.9			(0.9)			
7	IT and computer equipment impairment	(1.6)					1.6	
8	Prior year expenditure recorded in current year						(0.9)	0.9
9	Insurance claims						(1.1)	1.1
10	Removal of provision of school iPads and desktops	(0.9)			0.9			
11	Sale and leaseback asset valuation adjustment	0.4				(0.4)		
12	Adjustment of valuation of surplus assets	(0.8)				0.8		
13	Adjustment of land value of assets	2.4				(2.4)		
14	Valuation of Concert hall	(0.5)				0.5		
15	Disposal of vehicle leases	9.3 (9.3)						
16	Long-term debtor car park lease	(3.5)					3.5	
17	Valuation of GOMA and City Chambers	(1.4)				1.4		
18	Judgemental misstatement of PPP lease liability			1.7	(4.1)	2.4		

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F Adjusted and unadjusted differences

Council Financial Statements 2022/23: Unadjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
19	Opening balances of PPE assets	0.6				(0.6)		
20	Opening balance valuation of People's Palace	(0.6)				0.6		
21	Accruals settled prior to the yearend that should be removed				0.4		(0.4)	
22	Valuations – Land area for SEC Hall	(1.4)				1.4		
23	Removal of mobile contracts classified as VPE	(0.4)					0.4	
25	Useful life depreciation adjustment	4.9					(4.9)	
26	Infrastructure land depreciation	0.4					(0.4)	
27	Reclassification of capital grants				(0.5)		0.5	
28	Correction of overstated expenditure in relation to rent rebates						0.8 (0.8)	
29	Correction of overstated expenditure in relation to rent allowances				0.4		(0.4)	
30	Intangible asset timing capitalisation error	2.6 (2.6)						
31	Sale of fixed asset that was not recorded on the fixed assets register	1.1				(1.1)		
32	Extrapolated adjustment to income recognised		(0.3)				0.3	
33	Addition capitalisation timing error	(0.7)					0.7	
	Total	(3.4)	(0.3)	1.7	(3.3)	2.6	0.7	2

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F Adjusted and unadjusted differences

Council Financial Statements 2022/23: Disclosure/other differences

No.	Description
1	**Misstatement in Non-Domestic Rates Income Account** A difference of £1.9 million was identified between the 'Empty Property Rating 1966 Act' value and the 'gross rates levied' line on the disclosure within the Non-Domestic Rates Income Account.
2	**Misstatement in disclosure within the Notes to the Non-Domestic Rates Income Account** The rateable values and numbers of premises as at 1 April did not agree to information provided by the Assessor. Figures for number of premises on the disclosure within the financial statements do not match the figures provided to the entity by the assessor. Disclosure states 'Rateable values and numbers of premises as at 1 April', however figures do not agree to assessor download at this date.
3	**Misstatement in disclosure of pension fund assets** In 2022/23, the auditor of Strathclyde Pension Fund identified a net understatement of pension fund assets totalling £104 million. The Council's share of this difference was £15.3 million.
4	**Misstatement in cashflow statement** Cash flow statement corrections of £81.2 million were identified as a result of audit adjustments and corrections to the composition of the cash flow statement. This results in an increase in the net surplus on the provision of services from £240.2 million to £242.2 million, a decrease in the Adjustment to (Surplus) or Deficit on the Provision of Services for non-cash movements from £400.5 million to £326.3 million, an increase in investing activities from £22.6 million to £27.6 million and a decrease in financing activities from a debit £53.9 million to a credit of £27.1 million.
5	**Asset disposals** Disposal testing identified sales of assets which while owned by the Council had not been recorded on the fixed asset register. The total value of these assets was £1.08 million.
6	**Intangible asset Transfers** Intangible assets totalling £2.6 million were transferred from assets under construction to assets in use in 2022/23. We identified that these related to assets which had been completed in 2019 and therefore should have been previously transferred and amortisation charged.
7	**Infrastructure to Land reclassification** Our review of infrastructure assets identified £5.2 million of assets which related to land. As the land was within infrastructure, the land had also been subject to depreciation of approximately £0.4 million.
8	**Blochairn Recycling Facility** A portion of the recycling facility was incorrectly included within equipment rather than buildings. The asset included cost of £1.5 million and accumulated depreciation of £1.35 million which should be disposed of.

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F

Adjusted and unadjusted differences

Council Financial Statements 2021/22: Unadjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	Depreciation for assets acquired in year	(3.3)					3.3	
2	Amortisation for assets acquired or transferred in year	(1.2)				1.2		
3	Judgemental misstatement of PPP lease liability			(3.8)	1.3	2.5		
4	Opening balances of PPE assets	2.3				(2.3)		
5	Reduction in valuation of heritage assets	(2)						2
6	Addition incorrectly recognised in 2022/23 when the asset came into use in 2021/22	0.7					(0.7)	
7	Assets held for sale not meeting criteria and to be reclassified as land and buildings	5 (5)						
	Total	(3.5)	-	(3.8)	1.3	1.4	2.6	2

F Adjusted and unadjusted differences

Group Financial Statements 2022/23: Adjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	SPT pension asset recognition	2.8						(2.8)
2	Glasgow Life Unfunded liabilities			(7.9)		7.9		
3	Glasgow Life pension asset recognition	141.4				(141.4)		
4	City Building (Contracts) pension asset recognition	22.8				(22.8)		
5	City Building (Glasgow) pension asset recognition	79.5				(79.5)		
6	Jobs and Business Glasgow Pension asset recognition	1.6				(1.6)		
7	SEC Sale and leaseback long-term borrowing adjustment	(0.5)		0.5				
8	SEC Hydro valuation adjustment	(34.8)					34.8	
	Total	**212.8**	**-**	**(7.4)**	**-**	**(237.4)**	**34.8**	**(2.8)**

Group Financial Statements 2021/22: Adjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	SEC Valuation difference	32.9				(32.9)		
	Total	**32.9**	**-**	**-**	**-**	**(32.9)**	**-**	**-**

F Adjusted and unadjusted differences

Group Financial Statements 2022/23: Unadjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	SEC Valuation understatement	11.7				(11.7)		
2	Common Good Fund income relating to prior periods						0.14	(0.14)
	Total	**11.7**	**-**	**-**	**-**	**(11.7)**	**0.14**	**(0.14)**

Group Financial Statements 2021/22: Unadjusted differences

No.	Description	Balance Sheet Debit/Credit				CIES Debit/(Credit)		Reserves
		NCA £m	CA £m	NCL £m	CL £m	OCI £m	Surplus/ Deficit £m	£m
1	SEC Valuation understatement	4.6				(4.6)		
	Total	**4.6**				**(4.6)**		

Group Financial Statements 2022/23: Disclosure/other differences

No.	Description
1	**Pension asset disclosure** In 2022/23, the auditor of Strathclyde Pension Fund identified a net understatement of pension fund assets totalling £104 million. The Group's share of this difference was £17.9 million with a further £1.6 million relating to joint ventures and associates.
2	**City Property (Glasgow) LLP disclosure** City Property (Glasgow) LLP is assessed by the Council as non-material subsidiary. In 2022/23, the pension asset in respect of the company's participation in Strathclyde Pension Fund was £10.6 million which significantly increased the Company's balance sheet. Management continue to assess the company as a non-material subsidiary.

F Adjusted and unadjusted differences

Group Financial Statements 2021/22: Adjusted Disclosure differences

No.	Description
1	Group EFA The Group EFA was restated to reflect the impact of the prior period valuation adjustment for SEC Ltd and the removal of City Property SL1 and City Property SL2 from the analysis.
2	**Pensions asset audit differences** In 2021/22, the auditor of Strathclyde Pension Fund identified a net understatement of pension fund assets totalling £88.244 million. The Group's share of this difference was £18.3 million with a further £1.1 million relating to joint ventures and associates.

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G Audit Fees

2022/23 Fees

The Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2022/23	2021/22
Component of fee:		
► Auditor remuneration – expected fee	£472,200	
► Additional audit procedures (Note 1)	£450,000	
Audit Scotland fixed charges:		
► Performance audit and best value	£183,620	
► Audit support costs	£17,900	
Sectoral price cap	£80,130	
Total fee	**£1,203,850**	**£669,850**

The expected fee for auditor remuneration is based on a risk assessment of publicly available information from the 2021 tender exercise, submitted in November 2021. It assumes that the Council has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line with the requirements of the Code of Practice.

Note 1

As outlined in our provisional annual audit plan in May 2023 and our finalised annual audit plan in November 2023, we communicated to both management and Audit Scotland through the course of the audit a significant number of material areas of additional work required to conclude the financial statements audit.

These areas relate to either:

- Significant events or transactions which have occurred across the Council in 2022/23 or 2021/22 which could not have been predicted as part of the fee setting arrangements, and which fundamentally changed the scope of required audit work, or:
- Additional work required as a result of our ongoing risk assessment procedures through the audit, where the risk profile and control environment of the Council was outside the normal expectations for a Council, even one as large and complex as Glasgow, and where subsequently additional work was required to satisfy auditing standards.

The main areas of additional work have been set out in our discussions with management. In line with the protocols set out under the Audit Scotland framework, based on the quantum of additional time required we have set these out for Audit Scotland, and shared with management in advance of finalising the fee for 2022/23.

H Prior Year Recommendation Follow Up

This appendix sets out the recommendations that were made by the Council's former external auditor, Audit Scotland in 2021/22, along with our assessment of progress.

Prior year recommendations made by Audit Scotland			
No.	**Recommendation**	**Management response**	**Our assessment of progress**
1	**Land and building valuations** We recommend that the valuation process could be enhanced through establishing a matrix process to valuations to better inform Management around the potential requirement for additional valuations in a particular year around the remaining class of assets not subject to revaluation. In addition, the annual valuation summary certificate prepared by City Property should provide enhanced details of the methodology applied in completing the revaluation programme, including the process and outcome of procedures for identifying impairments and other significant movements during the year. There should be clear evidence of how management have challenged and scrutinised the valuation to ensure the accounts are free from material misstatement.	The council is engaged in round table discussions to enhance and develop the approach to valuations nationally and will investigate this proposal as part of those wider discussions. The council will engage with City Property to enhance and clarify existing disclosures. The council will continue to work with City Property at year end to confirm the appropriateness of valuations. **Responsible officer:** Executive Director of Finance **Agreed date:** Valuation Matrix - Over the medium term Others - March 2023	**Incomplete:** Refer to recommendations 7-14 in Appendix E

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H Prior Year Recommendation Follow Up continued

Prior year recommendations			
No.	Recommendation	Management response	Our assessment of progress
2	**Client bank accounts** There are over two hundred bank accounts in the council's name that relate to client accounts. A number of these accounts appear to be inactive. The council should take steps to mitigate the risk of fraud arising from inactive bank accounts held in the council's name.	The council will engage with its banker to streamline accounts where possible and clarify naming conventions. **Responsible officer:** Executive Director of Finance **Agreed date:** March 2024	**Not yet due:** During the audit process we identified that some bank accounts have been closed in line with the action plan, but there is not yet evidence of sufficient rigour relating to inactive or obsolete bank accounts. Refer to recommendation 6 in Appendix E
3	**Five-year financial framework** Significant longer-term financial challenges include the impact of the equal pay settlement and the implementation of the new pay and grading structure planned for 2024. The council should update its five-year financial framework to address the significant financial challenges it faces.	The council will consider developing a longer-term financial strategy framework once there is greater certainty over the current financial challenges. **Responsible officer:** Executive Director of Finance **Agreed date:** March 2024	**Incomplete:** Refer to recommendation 20 in Appendix E

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I Additional audit information

Introduction

In addition to the key areas of audit focus outlined within the Report, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Audit and Scrutiny Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.

Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

I Additional audit information (cont.)

Audit Quality Framework/Annual Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: https://www.audit-scotland.gov.uk/publications/audit-quality-audit-scotlands-transparency-report-202223
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: **https://www.ey.com/en_uk/about-us/transparency-report**

This report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland through which the Accounts Commission has appointed us as external auditor of Glasgow City Council for financial years 2022/23 to 2026/27.

This report is for the benefit of the Council and is made available to the Accounts Commission and Audit Scotland (together the Recipients).

This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

J Group audit scope

The below table sets out our approach to the scoping of the Group audit as explained on page 12. There has been one change to audit plan, to amend the scope assigned to the City Building entities – these have changed from full scope on the basis of significant by risk to a limitation of scope and resulting amendment to our group audit opinion.

In scope entities	Scope	Statutory audit performed by EY	Current year rationale for scoping
Glasgow City Council	Full	Yes	Significant by size
Glasgow City Integration Joint Board	Review	Yes	Not significant by size or risk
Scottish Event Campus Limited	Specific	No	Specific significant accounts by size
City Building (Contracts) Limited Liability Partnership	Limitation	No	See above
Culture and Sport Glasgow, trading as Glasgow Life	Specific	No	Specific significant accounts by size
City Property Glasgow (Investments) LLP	Specific	No	Specific significant accounts by size
City Property Glasgow (Operations SL1) LLP	Specific	No	Specific significant accounts by size
City Property Glasgow (Operations SL2) LLP	Specific	No	Specific significant accounts by size
City Property Glasgow (Operations SL) Limited	Specific	No	Specific significant accounts by size
City Property Glasgow (Operations SL3) LLP	Specific	No	Specific significant accounts by size
City Property Glasgow (SL Operations 3) Limited	Specific	No	Specific significant accounts by size
City Building (Glasgow) Limited Liability Partnership	Limitation	No	See above
Jobs & Business Glasgow	Review	No	Not significant by size or risk
Strathclyde Partnership for Transport	Specific	No	Specific significant accounts by size
Strathclyde Concessionary Travel Scheme	Review	No	Not significant by size or risk

J

Group audit scope (cont.)

In scope entities	Scope	Statutory audit performed by EY	Current year rationale for scoping
Common good fund	Review	Yes	Not significant by size or risk
Sundry Trusts	Review	Partially	Specific significant accounts by size

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K Emerging accounting issues

The implementation of IFRS 16

Summary of key measures	Impact on 2023/24
‣ CIPFA have confirmed that there will be no further delay of the introduction of the leases standard IFRS 16. ‣ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability. ‣ Lease liabilities and right of use assets will be subject to more frequent remeasurement. ‣ The standard must be adopted by 1 April 2024 at the latest.	‣ The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements. ‣ The Council should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024. ‣ Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner. **Recommendation 34:** The Council should prepare an IFRS 16 implementation readiness assessment in advance of the standard coming into effect in April 2024. **(Grade 2)**

Infrastructure assets

Summary of key measures	Impact on 2023/24
‣ We outline the impact of two statutory overrides on the Council's treatment of infrastructure assets on page 28. ‣ The statutory override was scheduled to end on 31 March 2024, but the Scottish Government has consulted on extending the measures to 31 March 2025.	‣ The extension continues to carry an expectation that Councils will continue to address information deficits to ensure timely adoption of future Code requirements once a more permanent solution is delivered.

Loans Fund Repayments

Summary of key measures	Impact on 2023/24
‣ The Scottish Government has issued a consultation relating to proposed amendments to the requirements for calculating repayments to loans funds advances from 2023/24.	While not yet confirmed, the proposed amendments arise from concerns that: ‣ The application of the current level of flexibility in calculating loans fund repayments creates a future affordability risk for capital investment projects ‣ some local authorities may be making capital investment decisions that are being justified on value for money grounds by providing for loans fund repayments over excessively long periods ‣ the use of an annuity calculation to determine the pattern of loans fund repayments may result in a significant proportion of the repayments being deferred to future financial years.

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