

Glasgow City Council

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Glasgow City Council and the Controller of Audit
27 September 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Key messages	4
Introduction	6
Part 1 Audit of 2017/18 annual accounts	8
Part 2 Financial management	14
Part 3 Financial sustainability	19
Part 4 Governance and transparency	23
Part 5 Best Value	29
Appendix 1 Action plan 2017/18	34
Appendix 2 Significant audit risks identified during planning	38
Appendix 3 Summary of national performance reports 2017/18	42

Key messages

2017/18 annual accounts

- 1 In our opinion, Glasgow City Council and its group financial statements give a true and fair view and were properly prepared.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Financial management

- 3 Financial management is effective with a budget process focused on the council's priorities.
- 4 Our testing of the design and operation of the financial controls over significant risk points confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial sustainability

- 5 The council has a good track record of strong financial management, delivering savings of over £270 million in the last six years.
- 6 The council has predicted a funding gap of £129.1 million for the three-year period 2018/19 to 2020/21. With its commitment to resolve outstanding equal pay claims, the council now faces a period of unprecedented financial pressure.

Governance and transparency

- 7 The council has appropriate governance arrangements in place that support the scrutiny of decisions made by the council.
- 8 The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.

Best Value

- 9 Our Best Value Assurance Report on the council was published in August 2018. The council has made steady progress since its last Best Value report in 2009. It has made many changes in the last ten years to help improve services for local people and it has improved its performance in a number of areas.
- 10 The council has effective arrangements for ongoing review of the Council Family structure. It should closely monitor the financial and service implications of the implemented changes to ensure the anticipated benefits are delivered.

- 11** The council will be addressing a number of issues identified, including continued improvement in relation to educational attainment, wellbeing of children and young people, and wider health outcomes. The council is preparing an action plan to monitor and address the points raised in the Best Value report.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Glasgow City Council (the council) and its group.
2. The scope of the audit was set out in our Annual Audit Plan presented to the 14 March 2018 meeting of the Finance and Audit Scrutiny Committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - an audit of the council and its group 2017/18 annual accounts administered by the council including the issue of independent auditor's reports setting out our opinions
 - a review of the council's key financial systems
 - audit work covering the council's arrangements for delivering Best Value and reported in a Best Value Assurance Report (BVAR) in August 2018.

4. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.
5. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.
7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the council's best value arrangements and in doing this we aim to support improvement and accountability.
8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £623,770, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Glasgow City Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.
13. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, the financial statements of Glasgow City Council and its group give a true and fair view and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

There were no unadjusted errors arising from our audit of the 2017/18 financial statements.

Audit opinions on the annual accounts

- 15.** The annual accounts for the council and its group for the year ended 31 March 2018 were approved by the City Administration Committee on 27 September 2018. We reported within our independent auditor's report that, in our opinion:
- the financial statements give a true and fair view and were properly prepared
 - the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 16.** We have nothing to report in respect of
- misstatements in information within the financial statements
 - the adequacy of accounting records
 - the information and explanations we received
 - the achievement of prescribed financial objectives.

The Council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Submission of the council and its group annual accounts for audit

- 17.** We received the unaudited annual accounts on 14 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.
- 18.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided very good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Whole of Government Accounts

19. We received the whole of government accounts consolidation pack from the council in sufficient time allow us to conclude our audit work in this area by the required deadline of 28 September 2018.

Risk of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.
22. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.
23. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Glasgow City Council Financial Statements	
Overall materiality	£27.715 million
Performance materiality	£20.786 million
Reporting threshold	£0.250 million
Group Financial Statements	
Overall materiality	£29.113 million
Performance materiality	£18.923 million
Reporting threshold	£0.250 million

Source: Audit Scotland, Annual Audit Plan 2017/18

How we evaluate misstatements

- 24.** There was one material adjustment to the unaudited financial statements relating to the council and group share of pension fund assets. This is an issue affecting pension funds, councils and other public bodies across Scotland and wider across the United Kingdom. Further details on this matter are included in [Exhibit 3](#). Officers have amended the council and group accounts to reflect a more up to date estimate of pension fund assets.
- 25.** As noted, the council has obtained a revised report from the actuary on its share of pension assets and liabilities, based on the updated estimate for the whole fund. The council's share of pension asset value has increased by £63 million to £3,563 million. This has resulted in the net pension liability in the balance sheet decreasing from £1,148 million to £1,085 million, with a matching increase in unusable reserves. Similar adjustments have been made for group entities who are admitted bodies in the Strathclyde Pension Fund. These adjustments have no impact on the General Fund reserve balance. Although the adjustments exceed our performance materiality threshold, we do not consider the issue to be pervasive, and therefore we have not had to undertake additional audit procedures.
- 26.** Officers identified one error above our reporting threshold of £0.250 million. This related to £0.282 million of social work services capital financing costs which should have been recovered from Glasgow Integration Joint Board (IJB), along with a corresponding increase in funding provided to the IJB. Officers reflected this adjustment in the audited financial statements. Correcting this error had a nil effect on the net cost of services.
- 27.** We did not identify any other errors above our reporting threshold. We did identify two minor errors in the Remuneration Report that management have agreed to adjust.

Significant findings from the audit in accordance with ISA 260

- 28.** International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.
- 29.** The findings include our views about significant qualitative aspects of the council's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Provision for the assessment of pay protection obligations</p> <p>The council has made a provision of £35.055 million in relation to the assessment of pay protection obligations.</p> <p>There is a risk of misstatement if the provision is not properly determined.</p>	<p>We assessed whether</p> <ul style="list-style-type: none"> the amount is the council's best estimate of the expenditure required to settle the obligation at 31 March 2018 the estimates of outcome and financial effect are reasonable, have been determined by the judgement of the authority's management, supplemented by experience of similar transactions and, where appropriate, reports from independent experts the estimate reflects additional evidence provided by any events after 31 March 2018. <p>We determined that the provision was a reasonable estimate based on the information currently available to the council.</p>
<p>2. Contingent liability for outstanding equal pay settlements</p> <p>The financial statements include a contingent liability disclosure for outstanding claims in respect of the implementation of the Workforce Pay and Benefits Review. The council has not included a provision in respect of these claims as it does not consider that a reliable estimate of the costs to settle can be made at present.</p> <p>There is a risk of misstatement if this potential liability is not properly recognised in the financial statements.</p>	<p>We assessed whether the accounting conditions required for a provision to be recognised had been met.</p> <p>One of those conditions is that a reliable estimate can be made of the relevant amount. We concluded that it is too early to place a reliable estimate on the cost of settlement.</p> <p>On this basis, a contingent liability disclosure in the financial statements, rather than a provision, is appropriate.</p>
<p>3. Pension Scheme Valuation</p> <p>The council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. A revised report from the actuary showed that the pension fund assets reported in the council's balance sheet were understated by approximately £63 million.</p>	<p>The accounts have been adjusted to reflect the council's share of the pension fund assets based on the revised valuation at 31 March 2018. This has the impact of reducing the pension fund liability and increasing the pension reserve by £63 million. Similar adjustments were made for group entities who are admitted bodies in the Strathclyde Pension Fund.</p> <p>As local government accounting regulations require the general fund to be charged with amounts payable to the pension fund or directly to pensioners during the year rather than amounts calculated according to IAS19, this adjustment does not impact the outturn for the year or the general fund balance.</p> <p>We reviewed the adjustments and were satisfied that the updated net pension liability reflected in the audited financial statements was properly stated.</p>

Finding	Resolution
	<p>Going forward, the council should engage with external auditors and the actuary around the timing and approach to obtaining IAS19 reports for future financial statements.</p> <p>Recommendation 1</p>

Source: Audit Scotland

Good practice in financial reporting

30. The annual report and accounts reflect good practice as set out in Audit Scotland's report on *['Improving the quality of local authority accounts – expenditure and funding analysis'](#)*.

Follow up of prior year recommendations

31. We have followed up actions previously reported and assessed progress with implementation. These are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).
32. In total, five agreed actions were raised in 2016/17. Of these:
- four have been fully implemented
 - the management action remains ongoing in relation to assessing the financial implications of the Court of Session's judgement on the Council's Job Evaluation Scheme.
33. Overall the council has made good progress in implementing these actions. For the action not yet implemented a revised response and timescale has been agreed with management as set out in [Appendix 1](#).

Integration Joint Board

34. As required, the council included its share of the financial transactions of Glasgow City Integration Joint Board (the IJB) within its group financial statements. Our work on group disclosures included testing the accuracy and reliability of the IJB figures used in the group consolidation process. We also considered whether the council's share of the IJB's financial transactions had been properly accounted for. This provided us with the required assurances on the accuracy and completeness of IJB figures included in the accounts.

Other findings

35. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

36. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations.

- 37.** One objection to the accounts was received during this period. This objection related to the legal basis on which the council entered into framework contracts for the provision of services relating to the 2017 local elections, and the eligibility of VAT reclaims relating to these contracts. A hearing took place with the objector to ascertain any further specific details and information in relation to their concerns.
- 38.** We considered relevant legislation on this matter along with guidance from a number of sources. We concluded that the council was acting within its powers when entering into the framework agreement for the provision of electoral services and was also permitted to reclaim VAT on the contract expenditure.

Part 2

Financial management



Main judgements

Financial management is effective with a budget process focused on the council's priorities.

The council has a good track record of strong financial management, consistently delivering services within agreed budgets.

Our testing of the design and operation of the financial controls over significant risk points confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial performance in 2017/18

- 39.** The council has a good recent track record in delivering services within budget. In February 2017, it approved a net service revenue budget of £1,343.4 million for 2017/18.
- 40.** During the year, a number of budget revisions were made to reflect changes in commitments and funding, resulting in a revised service revenue budget of £1,327.7 million for the year. The council achieved an underspend of £5.1 million against this revised budget.
- 41.** While the council's spending has remained in line with its overall budget, there are variations in how different services have performed and this is summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Chief Executive's Office	£0.1	Additional recharges identified
Financial Services	£3.3	Lower than expected Council Tax Reduction
Related Companies	£2.5	Underspend in ACCESS costs
Overspends		
Education Services	£0.7	Staff Costs relating to increasing school rolls
Land & Environmental Services	£0.1	Shortfall in commercial income

Source: Glasgow City Council 2017/18 Outturn Report

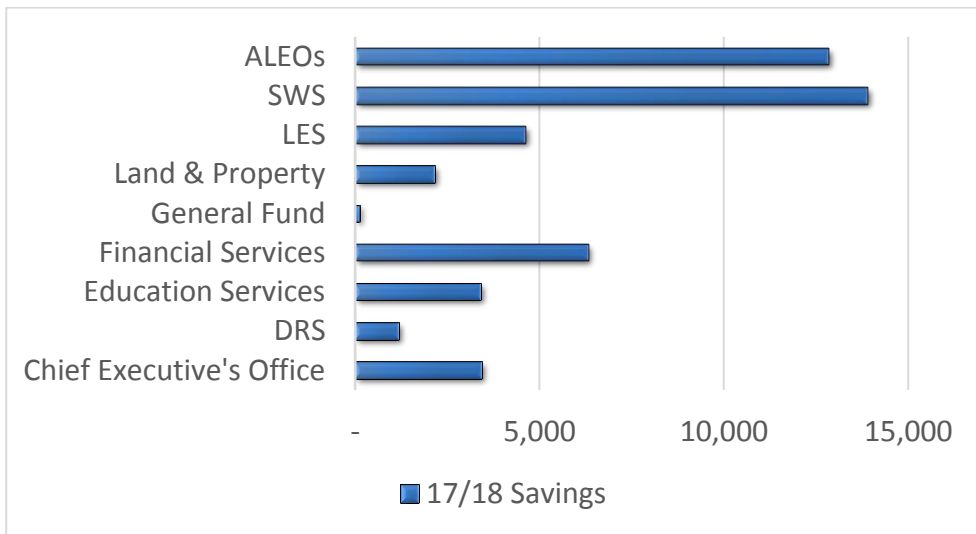
Efficiency savings

42. With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.
43. The council makes an annual return to the Scottish Government in respect of recurring efficiency savings. The City Administration Committee routinely receives budget monitoring reports including savings plans which have been risk assessed.
44. The council's 2017/18 budget included a savings target of £53.2 million to be realised through its 2016-18 Transformation Programme. The outturn position shows that the programme achieved £47.9 million (90.1%) of savings within 2017/18. The council reported that the shortfall mainly reflects delays in a number of projects relating to "LEAN", Procurement, Mobile Working and FLO (Fitter Leaner Organisations). The shortfall in savings has been offset by underspends in other budget lines. An analysis of the 2017/18 savings is shown in [Exhibit 5](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

Exhibit 5

2017/18 Achieved Savings



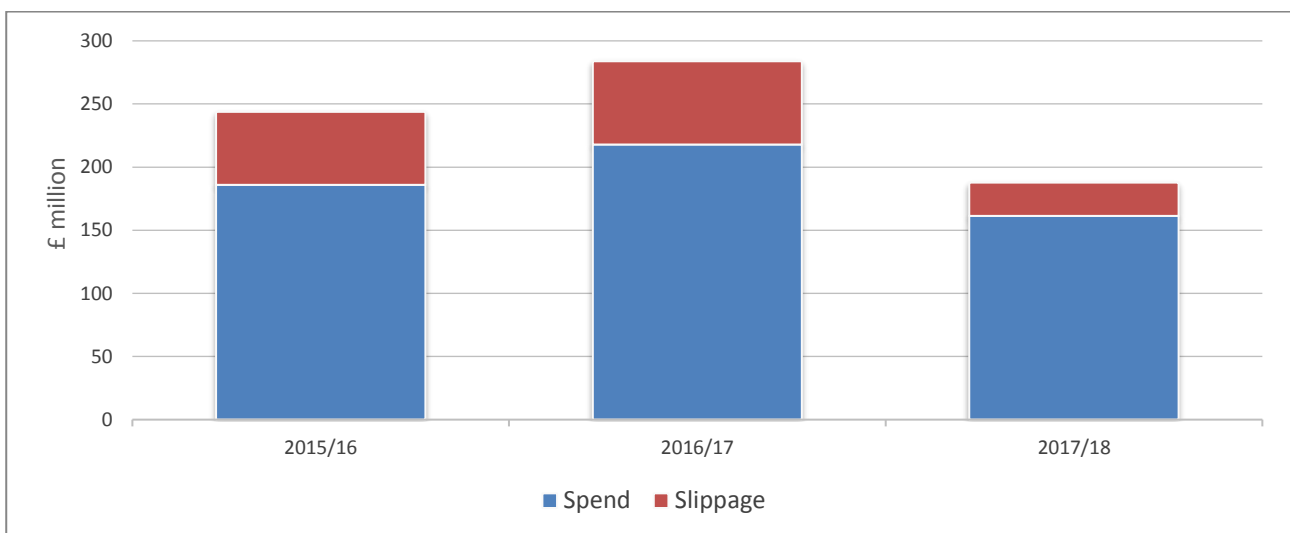
Source: Glasgow City Council 17/18 Outturn Report

Investment programme 2017/18

45. Total investment programme expenditure in 2017/18 was £161.4 million which was £26.3 million below planned expenditure of £187.7 million. This slippage is not attributable to any particular project but is an accumulation of smaller instances of slippage across a number of projects. The council's record of capital spend in the last three years is outlined in [Exhibit 6](#).

Exhibit 6

Capital slippage compared to planned expenditure



Source: GCC Accounts

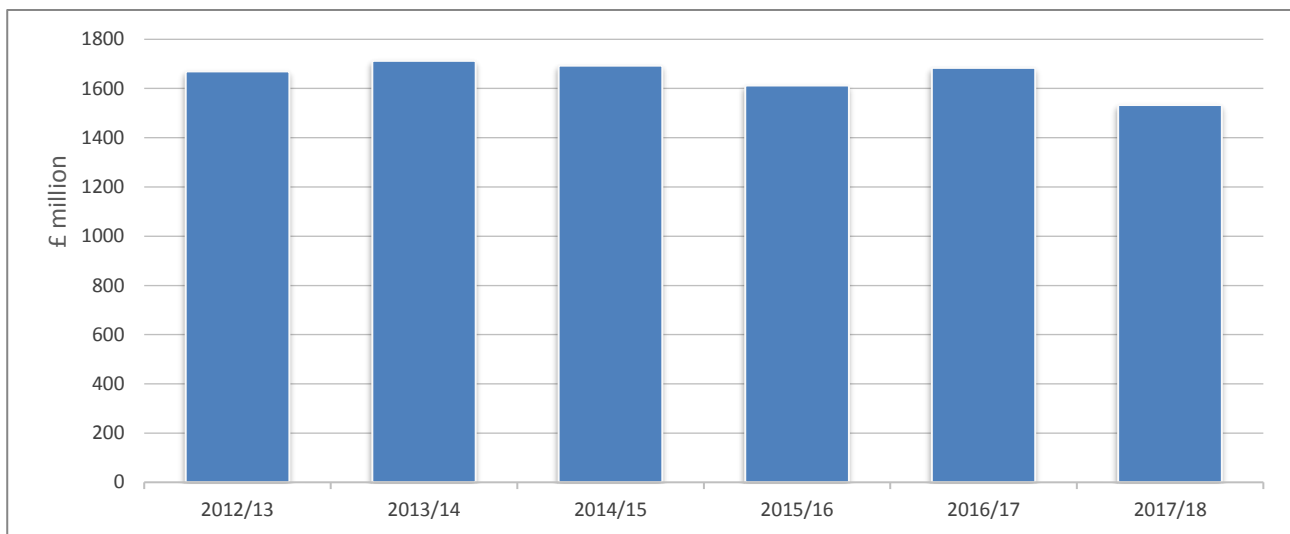
46. The council's 2017/18 Investment Programme expenditure was met through a combination of government grants and other receipts (£119.2 million), finance leasing (£0.01 million), revenue contributions (£3.1 million), and borrowing (£39.1 million).

Borrowing in 2017/18

47. In recent years the council's level of indebtedness has remained relatively constant as outlined in Exhibit 7. Outstanding debt as at 31 March 2018 was £1,532.5 million, a decrease of £151.5 million from the previous year.
48. Total external debt (which includes the council's long-term liabilities) is managed in line with the council's treasury management strategy. The council's policy is to borrow only for capital investment purposes and to meet short-term cash flow requirements. A total of £544 million of loan repayments were made during 2017/18, with £394 million of new loans taken out. [Exhibit 7](#) shows the council's debt levels since 2012/13. The council will continue to consider the affordability of future borrowing.
49. Having reviewed the council's treasury management strategy and considered its approach to borrowing in light of guidance and good practice, we have concluded that the council has a prudent approach to borrowing.

Exhibit 7

The council's debt levels since 2012/13



Source: Glasgow City Council's Accounts

Budgetary process

50. The [Local Government in Scotland: Financial overview 2016/17](#) (November 2017) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on.
51. We noted that the council's budget and financial plans are aligned to the council priorities as set out in its Strategic Plan. This is consistent with good practice.

- 52.** Financial forecasting is an embedded part of the council's financial management arrangements. Going forward the council plans to enhance the use of scenario planning in its longer term financial forecasts to help ensure it is adequately prepared for different levels of income and expenditure.
- 53.** Within the council the detailed scrutiny of financial performance is delegated to the Finance and Audit Scrutiny Committee, which receives four-weekly revenue reports, quarterly capital monitoring reports and year-end outturn reports. From our review of these reports and attendance at committee meetings we concluded that they provided an overall picture of the budget position at service level. The reports forecast the outturn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the council's finances.

Systems of internal control

- 54.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 55.** Our findings were included in our management letter that was issued to the council on 10 August 2018. We concluded that the key controls were operating effectively. No significant control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Financial capacity

- 56.** The Section 95 officer is the Executive Director of Finance, who is a member of the corporate management team and has direct access to the chief executive and council members. We concluded that the Section 95 officer has appropriate status within the council.
- 57.** It is important that members receive adequate training on how the council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. The council regularly reviews the induction and training it provides to members. In our BVAR work we considered the council's arrangements for members' induction and training. We found that members were generally positive about the arrangements, but some felt it had been very intensive and that a longer-term package of support was required.

Part 3

Financial sustainability



Main judgements

The council has a good track record of strong financial management, delivering savings of over £270 million in the last six years.

The council has predicted a funding gap of £129.1 million over the period 2018/19 to 2020/21. With its commitment to resolve outstanding equal pay claims, the council now faces a period of unprecedented financial pressure.

Financial planning

- 58. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategic plans and priorities. Although councillors usually only approve a budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on a council.
- 59. The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios, so they are prepared for different levels of funding and income.
- 60. We considered the council's financial management arrangements as part of our Best Value Assurance Report (BVAR). We identified that the council has a good track record of strong financial management, delivering savings of over £270 million in the last six years.
- 61. During 2017/18 the council established a five-year financial framework and a more detailed three-year financial forecast. In line with good practice the council intends to further develop its use of scenario planning in its longer-term plans.

Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered

Ending of public sector pay cap

- 62. The ending of the public sector pay cap means annual pay increases for council employees will no longer be limited to 1%. In its 2018-21 financial forecast the council has assumed annual pay increases of 1.5% and considered the potential impact if pay increases were 2.5%. However, as part of the 2018/19 budget the council included an average pay increase of 2.7%, which reflects the Scottish Government's public sector pay policy.

Funding position

- 63. The council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cost of services and reductions in local government funding.

- 64.** In February 2018, the council approved its 2018/19 revenue budget with the total net expenditure budget set at £1,495.0 million. This identified a £20.8 million spending gap and a revenue investment programme of £20.6 million. This £41.4 million will be met from a combination of increased council tax, release of funding set-aside for pensions auto-enrolment and savings of £29.2 million. The council's 2018/19 investment programme expenditure is £219 million.
- 65.** The council's budget information/financial projections for 2019/20 and 2020/21 forecast funding gaps of £59.0 million and £49.3 million respectively. This brings the forecast funding gap over the period 2018/19 to 2020/21 to £129.1 million. As in prior years, the council plans to bridge these gaps through a combination of efficiency savings, income generation, partnership working, use of reserves and management of the investment programme.

Equal Pay

- 66.** Our BVAR considered the council's decision to address equal pay claims relating to its Job Evaluation Scheme (JES) through negotiation with the claimants' representatives.
- 67.** In January 2018, the City Administration Committee agreed to address equal pay claims through negotiation. The council established an equal pay project comprising of a number of workstreams to take this matter forward. Members are updated through cross-party group meetings. The City Administration Committee will consider recommendations made by the Equal Pay Board.
- 68.** We noted that discussions are ongoing with claimants and their representatives to clarify the nature of any discrimination within the JES and agree an appropriate settlement figure, however these discussions are complex and will take time to resolve. The council has since indicated it intends to make a settlement offer to claimants and their representatives before the end of 2018.
- 69.** The nature of this issue, and the uncertainty around the financial implications is unprecedented. The potential scale, once resolved, is likely to be significant and traditional funding options such as the use of existing reserves and receipts generated from asset sales are unlikely to be sufficient to bridge any funding gap.
- 70.** The option of capitalisation requires the approval of Scottish and possibly UK governments. The council has acknowledged that a separate funding strategy outwith the current financial framework will be required. Work on developing a strategy is being taken forward by the council in parallel with discussions with claimants. Regular meetings between the council and claimant groups have taken place through 2018.
- 71.** As the cost of the settlement of equal pay becomes clearer the council will need to update its financial plans and consider any impact this may have on how it provides services in future. Going forward we will continue to monitor developments through our annual financial audit of the council. The Accounts Commission has requested that the Controller of Audit should report back at an appropriate time on the progress and impact on the council of the equal pay matter.

72. Overall, we concluded that the council is facing unprecedented financial pressure.

Recommendation 2

The council should consider the impact of resolving equal pay claims and include this within its financial plans. More widely, it should consider any potential impact on service delivery.

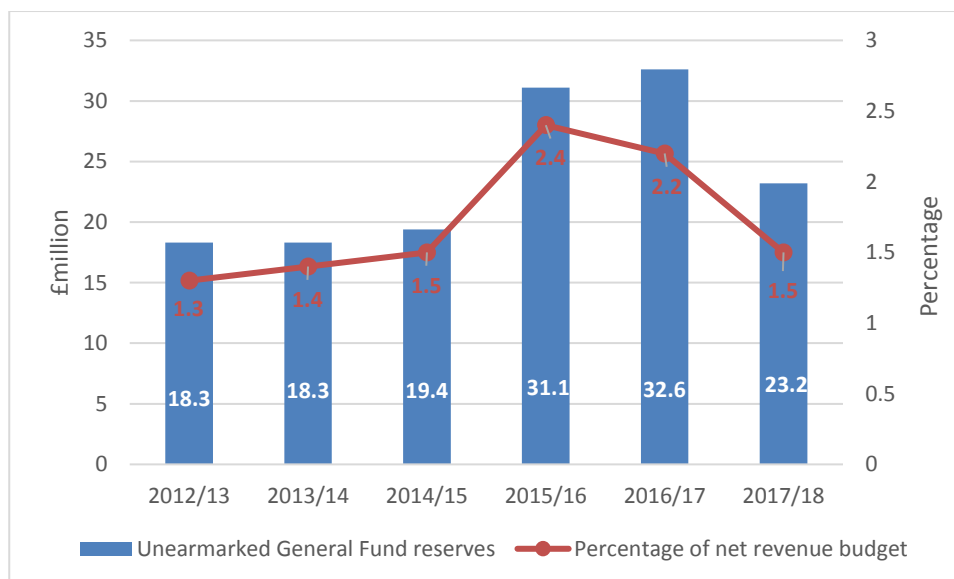
Reserves

73. One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the council increased from £109.6 million in 2016/17 to £111.7 million in 2017/18.
74. The general fund is the largest reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.
75. The council reviews the level of its un-earmarked reserves every year when setting the annual budget. These are funds that the council holds in the event of unexpected spending pressures but are not earmarked for anything specific. Its approved reserves strategy is to maintain balances at two per cent of the net budgeted expenditure over the medium term. [Exhibit 8](#) shows that the level of uncommitted general fund reserves over the last six years has been in line with strategy.

Exhibit 8

The council's general fund reserve, 2012/13 to 2017/18

The council has maintained reserves in line with its stated policy



Source: Glasgow City Council financial statements.

New Financial Powers

- 76.** The provisions of the 2012 and 2016 Scotland Acts and the accompanying Fiscal Framework agreement are leading to fundamental changes to the Scottish public finances. New tax raising, borrowing and social security powers will mean that the Scottish budget will be subject to greater volatility, uncertainty and complexity. Proposals have been made for changes to the Scottish Budget process, with these likely to be introduced for the 2019/20 budget. The Scottish Government has published a Five Year Financial Strategy.
- 77.** Further changes will follow, including increasing expectations that public bodies report on their contribution towards the national outcomes in their published plans and performance reports.
- 78.** The council is represented on national bodies that are considering the impact the new financial powers will have on local authorities. Therefore, the council is well placed to ensure it is properly prepared for the impact of new financial powers.

EU withdrawal

- 79.** There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:
- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
 - Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
 - Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.
- 80.** Within its Strategic Plan the council recognises the risk that Brexit will have on its ability to deliver its strategic objectives and the impact this may have on EU citizens that live and work in Glasgow. The council has considered Brexit within its Treasury Management Strategy and Annual Investment Strategy 2018/19, along with its Corporate Procurement and Commercial Improvement Strategy 2018-2022. However, it has not yet considered the potential implications within its financial plans. The medium to longer term financial position of the council is difficult to predict given the uncertainty of the factors likely to have a financial impact on the council.

Recommendation 3

The council should use a range of scenario planning and modelling when developing longer term financial plans aligned to its strategic objectives.

Part 4

Governance and transparency



Main Judgements

The council has appropriate governance arrangements in place that support the scrutiny of decisions made by the council.

The council is open and transparent in the way it conducts its business and the public can attend meetings of the council and its standing committees.

Governance arrangements

81. During the year we reviewed the council's governance arrangements including committees, schemes of delegation, standing orders, statutory officer roles, financial scrutiny and internal audit. We also considered the effectiveness of the council's two scrutiny committees: the Finance and Audit Scrutiny Committee and the Operational Performance and Delivery Scrutiny Committee.
82. Overall, we found that the council's governance arrangements are appropriate and effective and support good governance and accountability. We found that both scrutiny committees are well chaired and effectively scrutinise the way the council is managed.
83. The council has made a commitment to engaging openly with local communities and interest groups in addressing the challenges and opportunities it faces. It asked the Improvement Service (IS) to review governance and decision making in the council, including the council's communication with the public, and identify areas where it could improve existing arrangements. The IS report was considered by the council in September 2018.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Transparency

84. Transparency means that the general public have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.
85. There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council, City Administration and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.
86. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.
87. The council makes its annual accounts available on its website. These include a management commentary which provides details of performance against

budget, information on the use of reserves and risks and uncertainties facing the council.

- 88.** Overall, we concluded that the council conducts its business in an open and transparent manner.

Internal audit

- 89.** The council's internal audit function is carried out by the council's Internal Audit section. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). A formal external quality assessment of internal audit's compliance with the PSIAS is required at least once every five years. The latest external assessment (May 2016) concluded that the council's Internal Audit section conforms to the requirements of the PSIAS.

- 90.** We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could rely on the work of internal audit. Overall, we concluded that we would place reliance on aspects of internal audit work in the following areas for our financial statements responsibilities:

- payroll verification
- budget monitoring
- system access
- debtors
- creditors
- grants.

- 91.** In respect of our wider dimension audit responsibilities we consider other areas of internal audit work including:

- statutory performance indicators
- data matching
- procurement
- risk management.

Management commentary, annual governance statement and remuneration report

- 92.** The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.

93. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

ICT Services

94. On 1 April 2018 the council entered into a seven-year contract with CGI for the provision of ICT services. The council's ICT Transition Board managed the move to the new service provider.
95. In February 2018 the council established the Digital Strategy Board which forms part of the new governance arrangements for digital and ICT. The Board provides strategic leadership, oversight and scrutiny of the development and delivery of the Digital Glasgow Strategy and implementation programmes. We will consider the council's arrangements as part of our 2018/19 work.

Business Continuity

96. In 2015/16 Internal Audit found that the council's business continuity control environment was unsatisfactory. In August 2018 Internal Audit submitted a subsequent report to the Finance and Audit Scrutiny Committee on Business Continuity Planning. The report found that 'based on the work carried out a limited level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and six recommendations which management should address'. Management actions to address the recommendations have been agreed.

Quality of financial and performance reporting

97. The council reviews its financial reporting arrangements on an ongoing basis to ensure they remain fit for purpose. We reviewed a range of financial reports as part of our BVAR work and sought views from members and officers on the quality of reporting within the council. We also attended committees and observed the consideration of these reports. We concluded that the council's financial reporting arrangements were of a good quality.
98. We also considered the quality of the reporting on non-financial performance as part of our work on the council's performance management arrangements, as noted in section 5 of this report. We concluded that arrangements could be improved in the way the council measures the longer-term, non-financial benefits of transformation.

National Fraud Initiative

99. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.
100. In July 2018 Audit Scotland published its [National Fraud Initiative in Scotland 2016/17](#) report. The report highlighted that, since we last reported on the NFI in Scotland in June 2016, outcomes valued at £18.6 million have been recorded. The cumulative outcomes from the NFI in Scotland since 2006/07 are now £129.2 million.
101. NFI activity is summarised in [Exhibit 10](#). The council remains pro-active in prioritising and investigating matches and the results of NFI activity are regularly reported to the Finance and Audit Scrutiny Committee. The latest progress in NFI was reported to committee on 12 June 2018. Of the 5,358 completed cases the council reported 293 errors and 38 frauds.

Exhibit 10

NFI activity



36,898

Matches



8,926

Recommended for
investigation



5,358

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

102. Based on the work we have carried out we are satisfied that the council is proactive in investigating matches and reporting the outcomes of NFI activity.

Standards of conduct for prevention and detection of fraud and error

103. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, corporate fraud policy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

104. We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Cyber security

105. The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

106. In August 2018 Internal Audit submitted a report to the Finance and Audit Scrutiny Committee on Cyber Maturity Assurance. The report followed up on the cyber maturity review carried out in 2016/17. The report found that 'Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and one recommendation which management should address'. Management actions to address the recommendation have been agreed.

107. The council is presently going through the Cyber Essentials accreditation pre-assessment and, once this is complete, will decide on whether to pursue Cyber Essentials or Cyber Essentials (Plus) accreditation. The council is aiming to obtain accreditation by October 2018, but this will be dependent on the results of the pre-assessment. We have concluded that the council is actively working towards strengthening its cyber resilience arrangements.

General Data Protection Regulation

108. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act (DPA) 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.

109. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the council incurring significant fines.

110. Since April 2016 the council has been carrying out an implementation programme in relation to data protection reform, covering GDPR and the new Data Protection Act 2018. This work has been managed using the council's standard project management approach. All tasks due for completion by 25 May 2018 in relation to GDPR have been completed as planned. We concluded that the council had adequate arrangements in place to help ensure it was properly prepared for the introduction of GDPR.

Correspondence referred to the auditor by Audit Scotland

111. During the year we received a range of correspondence, including an item covering historic issues around EU funding and the council's governance arrangements with an Arm's Length External Organisation (ALEO). We considered the issues and evidence provided for each matter raised and have responded to the correspondents. We are satisfied that these did not identify any issues which had an impact on our opinion on the financial statements.

Integration of health and social care

112. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

113. The Glasgow City Integration Joint Board (the IJB) is provided in partnership with NHS Greater Glasgow and Clyde and became fully operational in April 2016. The IJB's progress in delivering integrated health and social care was considered in our BVAR. We identified that:

- governance arrangements are well established
- performance management arrangements are being developed to ensure suitable measures are in place to monitor progress against expected outcomes
- there have been a number of developments during the year to help move towards new models of care, including
 - agreement of transformational change programmes for Children's Services and for Older People
 - review of Social Work Out-of-Hours Service
 - developing a Five-year Strategy for Adult Mental Health Services
 - an assessment of Social Care Housing Needs
 - a review of West Glasgow Minor Injuries Services.
- Over the last two years there has been a significant reduction in the number of acute bed days lost to delayed discharge across the city.

114. Overall, we concluded that an encouraging start has been made in transforming health and social care services across the city.

Local scrutiny plan

115. The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was presented to the Finance and Audit Scrutiny Committee on 11 April 2018. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2018/19. The following areas were identified as requiring oversight and monitoring:

- Financial sustainability – the council continues to face significant financial challenges.
- Housing and homelessness – the Scottish Housing Regulator continues to engage with the council to address concerns around the council's homelessness service (see paragraph 135).

116. The council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

117. The Community Empowerment Act 2015 gave local communities new powers to take control of and manage community assets. The council's progress in engaging with local communities was considered in our BVAR issued in 23 August 2018. We identified that:

- the priorities set out in the Glasgow Community Plan are based on a good understanding of local challenges
- while the council has developed arrangements to support asset transfers and participation requests, there have been very few so far
- the council has also begun to roll out participatory budgeting in some areas.

118. The council's new city charter sets out how the council expects people to engage and work within their communities alongside the council in a partnership. The council has established a new Empowerment Unit and appointed a Director of Community Empowerment and Equalities.

119. Overall, we concluded that the council continues to improve its engagement with local communities.

Part 5

Best Value



Main judgements

The council has made steady progress since its last Best Value report in 2009. It has made many changes in the last ten years to help improve services for local people and it has improved its performance in a number of areas.

Performance management arrangements could be improved with the development of arrangements for measuring the longer term, non-financial benefits of transformation activity.

Council and partner arrangements for dealing with homelessness require significant improvement.

The council has effective arrangements for ongoing review of the Council Family structure. It should closely monitor the financial and service implications of the implemented changes to ensure the anticipated benefits are delivered.

Best value

120. Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period.

121. During 2017/18 we undertook a more in-depth review of best value within the council. The findings from this review were reported in the BVAR for Glasgow City Council which was published on 23 August 2018. Within this we highlighted the following key messages:

- The council has made steady progress since its last Best Value report in 2009. It has made many changes in the last ten years to help improve services for local people and it has improved its performance in a number of areas. The council invests time and resources in self-assessment and improvement activities and involves its staff and residents in this process.
- The council and its partners have a clear, shared vision of inclusive growth, which is set out in the new Glasgow Community Plan. The plan was developed from a good understanding of the city's challenges. The council demonstrates effective leadership and all political parties support the new strategic plan. The council is refining its corporate performance framework to monitor progress against its strategic plan. The council continues to improve partnership working and community participation to help redefine its leadership role.
- The Glasgow Community Planning Partnership has performed well in addressing its priorities of alcohol misuse, youth unemployment and

Best Value is concerned with using resources effectively and continually improving services.

vulnerable people. However, homelessness continues to be a challenge for the city. The council's performance has improved for several other service areas. Although its overall performance compared to other Scottish councils slightly decreased in 2016/17, Glasgow performs well compared to similar cities in the UK. The council regularly consults residents, and most are satisfied with the services they receive. The council can demonstrate how it responds to residents' feedback.

- The council predicts a funding gap of £129.1 million over the next three years (2018/19 to 2020/21). In addition, the council is committed to resolving a substantial number of equal pay claims. This means that it faces a period of unprecedented financial pressure. The council is not yet in a position to reflect equal pay claims in any of its financial forecasts. We consider that these financial pressures may have an impact on how the council delivers public services. This aside, the council has a record of strong financial management and its 2016-18 Transformation Programme has delivered savings of £102.5 million. The council can demonstrate the impact of a number of individual successful transformation projects. But we are not clear how the council will measure the longer-term, non-financial benefits of the programme more widely.
- The council is clearly committed to partnership working and has positive relationships with public sector, business and academic partners. The council recognises that it could improve its relationships with third sector partners and with communities and is actively working on this. The council works effectively with NHS Greater Glasgow and Clyde to deliver an integrated health and social care service. This has been strengthened by the Integration Joint Board (the IJB). The IJB is starting to make progress to help shift the balance of care from hospitals to communities, although it is still at an early stage.
- The council continues to review services delivered by both the council and its Arm's Length External Organisations (ALEOs). It has already made changes to property and ICT services. Services delivered by another two ALEOs (for care and community safety), with around 4,300 staff, will soon be transferred to the council.
- The council is working well with partners to progress its City Deal projects. It is on track to deliver its five infrastructure projects, worth £386 million, by 2024. The council is preparing well for the first UK and Scottish Government Gateway Review of its projects in 2019.

122. The BVAR also includes a number of recommendations based in the findings in the report. The BVAR was considered at the council meeting on 13 September 2018.

Recommendation 4

The council should develop an action plan to address the recommendations set out in the BVAR.

Following the public pound

- 123.** 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.
- 124.** The council uses Arm's Length External Organisations (ALEOs) to provide many of the council's services. It is therefore essential that the council operates

effective governance and performance management arrangements over its ALEOs.

- 125.** The council closely monitors ALEO budgets and performance through its financial governance and performance management arrangements. Any risks around ALEOs failure to deliver services or return planned surpluses are managed through the council's risk management arrangements and financial reporting frameworks.
- 126.** The council's 2017/18 savings target of £53.2 million included a total ALEO savings target of £15 million. ALEOs achieved savings of £12.8 million during 2017/18, £2.2 million less than planned. The main reason for this was the delayed transformation savings within Cordia relating to LEAN mobile working.
- 127.** The council's 2017/18 budget included a total ALEO contribution of £13.2 million. Actual ALEO contribution for 2017/18 was £9.9 million. The shortfall was mainly due to the impact of delayed transformation savings within Cordia and settlement of outstanding workforce issues related to holiday pay and working patterns.
- 128.** We concluded that the council has appropriate arrangements for ensuring monitoring of the performance of its ALEOs and ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Performance management

- 129.** The council's performance management arrangements were considered as part of our BVAR work. The Operational Delivery and Performance Scrutiny Committee receives regular performance reports throughout the year and an annual performance report is submitted to the City Administration Committee. These reports monitor progress against the council's key priorities.
- 130.** In the BVAR, we reported that the council is refining its corporate performance framework to monitor progress against its new strategic plan. The corporate scorecard, used to measure and monitor council performance at a strategic level, has been refreshed, and work is underway to develop other indicators and outcomes so that it can better report against the themes in the strategic plan.
- 131.** We also reported that although there was clear reporting on the achievement of financial savings targets through the council's Transformation Programme 2016-18, it was not clear how the council would be monitoring delivery of the longer term non-financial outcomes of the programme, including improved collaboration with partners, and the delivery of strategic plan commitments.

Overview of performance targets

- 132.** The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.
- 133.** The most recent [National Benchmarking Overview Report 2016/17](#) by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. This report was submitted to the Operational Performance Delivery and Scrutiny Committee on 23 May 2018 and to the Finance and Audit Scrutiny Committee on 8 August 2018.
- 134.** The council's performance was considered in our BVAR. We identified that

- the council and its partners have improved several outcome areas, including economic growth, health and wellbeing, and reducing inequality
- the council has improved performance across many service areas, for example
 - corporate services indicators show a below-average gender pay gap, falling sickness absence rates for teachers and the highest-ever council tax collection rates
 - education indicators show improvements in levels of pupil exam attainment from areas of deprivation, attendance levels and exclusion rates
 - social work indicators show increasing numbers of elderly people being cared for in their homes.
- The council is not performing as well in some other areas, for example: three-year business survival rates, satisfaction with street cleaning and refuse collection and satisfaction with leisure facilities and libraries.

Homelessness

- 135.** Our Shared Risk Assessment and BVAR identified homelessness as a significant problem for the city. In the first six months of 2017/18, the council assessed just over 2,000 households as requiring homelessness assistance and the average length of stay in temporary accommodation was 249 days for the same period.
- 136.** A recent Scottish Housing Regulator (SHR) report highlighted some significant areas for improvement in how the council and social landlords deal with homeless people. It found that in 2016/17 the council failed to house around half the people it had a statutory duty to provide homes for and that it was not housing enough homeless people quickly enough. However, it did find evidence of the council's commitment to deal with the weaknesses in the homelessness system.
- 137.** The Glasgow Health and Social Care Partnership's 2015-2020 Homelessness Strategy sets out the proposed response to the wider homelessness challenge. The council and Glasgow Integration Joint Board are in discussion with the SHR around the actions and timescales required to address the specific matters highlighted in the SHR report.

The Council Family

- 138.** In our BVAR work we looked at recent changes to the Council Family. We identified that the council continuously reviews the Council Family structure to ensure that the operating model remains fit for purpose and delivers best value.
- 139.** Following the termination of the joint venture agreement with SERCO the council has changed the way it delivers property and ICT services. The council decided to bring delivery of property services back into the council Family and enter into a ICT contract with strategic partners CGI from 1 April 2018.
- 140.** In April 2018, the council decided that services delivered by Cordia (care and facilities management) would be transferred to the council by 30 September 2018. In addition, it decided to terminate the service level agreements with Community Safety Glasgow and to bring the services back to the council by 31 March 2019. These changes will result in the transfer of around 4,300 staff to the council.

141. The expected benefits set out in the business cases that supported the changes are:

- streamlined and improved service delivery
- refined Council Family structure
- reduced service delivery costs and maintained or improved service quality
- realisation of further opportunities for financial savings, for example through reducing duplication.

142. These changes present a number of challenges around revising governance arrangements, resources performance and workforce which the council is currently addressing. We will consider how effectively the council is managing these changes as part of our 2018/19 audit work.

Public Performance Reporting

143. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

144. The council's arrangements for public performance reporting were included in our BVAR. We identified that

- the council's approach to reporting its performance to the public is well developed
- the council prepares an annual performance report designed for the public based on a selection of performance indicators
- the council reports every year on a set of Statutory Performance Indicators (SPIs) and against wider set of indicators in the Local Government Benchmarking Framework (LGBF)
- performance is reported to the council's scrutiny committees.

National performance audit reports

145. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, a number of reports were published by Audit Scotland which are of direct interest to the council. These are outlined in [Appendix 3](#).

146. The council has well established and effective arrangements in place to ensure that our national reports and their impact on the council are considered by members.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Pension Scheme Valuation</p> <p>The current timetable for producing IAS19 reports means the council's report does not reflect the most up to date estimate of Strathclyde Pension Fund's investment assets at the financial year end. Where there is volatility in the markets towards year end, this can lead to a material difference between values used to produce unaudited financial statements, and the most up to date estimates.</p> <p>Risk</p> <p>The pension fund assets and net liability disclosed in the financial statements are materially incorrect.</p>	<p>The council should review the current financial statements closure timetable, and engage with the actuary and external auditors, to agree an approach to producing IAS19 reports for future financial statements.</p> <p>Exhibit 3</p>	<p>The council will liaise with the actuary and external auditors to agree an approach to the production of the IAS19 reports for future financial statements.</p> <p><i>Executive Director of Finance</i></p> <p>31 March 2019</p>
2	<p>Funding pressures</p> <p>The council is facing unprecedented financial pressure. In addition to projected funding gaps over the next three years (2018/19 to 2020/21) of £129.1 million, the council is facing the potential financial challenge arising from its commitment to settle outstanding equal pay claims.</p> <p>Risk</p> <p>The financial challenges result in the council being unable to deliver its strategic objectives.</p>	<p>The council should consider the impact of resolving equal pay claims and include this within its financial plans. More widely, it should consider any potential impact on service delivery.</p> <p>Paragraph 72</p>	<p>Management action to address this will be set out in the council's response to the BVAR recommendations.</p> <p>The BVAR will be considered by the full council on 13 September 2018.</p>
3	<p>Financial Planning</p> <p>The medium to longer term financial position of the council is difficult to predict given the</p>	<p>The council should use a range of scenario planning and modelling when developing longer term financial plans</p>	<p>The council will include scenario planning within future financial forecasts.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>uncertainty of the factors likely to have a financial impact on the council (e.g. new financial powers, Brexit, ending of public sector pay cap).</p> <p>Risk</p> <p>The council's longer-term financial planning does not support the management and delivery of its strategic objectives.</p>	<p>aligned to its strategic objectives</p> <p>Paragraph 80</p>	<p><i>Executive Director of Finance</i></p> <p>31 December 2018</p>
4	<p>Best Value Assurance Report</p> <p>The BVAR includes a number of recommendations based on the findings set out in the report.</p> <p>Risk</p> <p>The council fails to meet the Accounts Commission's expectations in addressing the findings and recommendations in the BVAR.</p>	<p>The council should develop an action plan to address the recommendations set out in the BVAR.</p> <p>Paragraph 122</p>	<p>Management action to address this will be set out in the council's response to the BVAR recommendations.</p> <p>The BVAR will be considered by the full council on 13 September 2018.</p>
Follow up of prior year recommendations			
b/f	<p>Strategic plan and financial challenges</p> <p>Current financial plans and performance targets support the delivery of the council's Strategic Plan 2012-2017. These have assisted the delivery of £200 million in savings in recent years, through the council's Service Reform Programme and Transition Programme. However, the council has forecast a similar level of financial challenges in the medium term.</p> <p>Following the appointment of a new Administration at the May 2017 elections, the council's strategic objectives are being reviewed.</p> <p>Unless robust financial plans and performance targets are in place and aligned to the new strategic plan, there is a risk that the council will not achieve its strategic objectives.</p>	<p>Financial plans and performance targets should be reviewed to ensure they are robust and aligned with the new strategic aims of the council.</p>	<p>Complete. Financial plans and performance targets were aligned to the new strategic plan.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p>ICT Services</p> <p>The council's current ICT and Facilities Management contract ends in March 2018. Thereafter, property services will be provided by the Council Family, and a new ICT contract will be in place. The council's preferred option is to utilise the framework CGI contract procured by City of Edinburgh Council.</p> <p>A reliable and effective ICT service is vital for the successful delivery of services across the council. There is a risk that the change in service provider will adversely impact on service provision.</p>	<p>The council should ensure appropriate arrangements are in place to manage the ICT service provision during the period of transition.</p>	<p>Complete. The council established the Digital Strategy Board which forms part of the new governance arrangements for digital and ICT.</p>
b/f	<p>City Building LLP</p> <p>The joint venture between the council and Wheatley Housing Group (WHG) will see City Building undertaking all repair work for the Glasgow Housing Association and WHG's other social landlords in the west of Scotland.</p> <p>This new working arrangement presents significant opportunities and challenges for the council.</p> <p>As with any major new venture there is a risk that the strategic objectives are not delivered.</p>	<p>Robust governance arrangements should be put in place to ensure that the joint venture delivers the expected benefits for the council.</p>	<p>Complete. Governance structures have been established for both City Building companies with appropriate council representation on both boards.</p>
b/f	<p>Pay Protection Arrangements</p> <p>The council has recognised its obligations following the judgement of the Court of Session in May 2017 in relation to the council's pay protection arrangements.</p> <p>The council has yet to quantify the financial implications of the judgement</p> <p>In the meantime, there is a risk that the council's financial plans do not adequately reflect the financial implications arising from the judgement.</p>	<p>The financial implications of this pay protection judgement should be quantified in order that they can be incorporated into the council's financial plans.</p>	<p>Complete. The 2017/18 financial statements include a provision of £35 million in respect of this aspect of equal pay claims.</p>
b/f	<p>Job Evaluation Scheme</p> <p>The Court of Session has ruled that there was insufficient evidence before the original Employment Tribunal to have entitled it to find that the council could rely on its Job Evaluation Scheme in defence of equal pay claims. Subject to any further appeal to the Supreme</p>	<p>The council should keep the implications of this judgement and any subsequent action under review and re-assess the financial implications in light of any future decisions.</p>	<p>Ongoing. A contingent liability disclosure is considered appropriate within the 2017/18 accounts as a reliable estimate cannot be made of the potential cost of settling the liability. Discussions are</p>



No. Issue/risk



Recommendation



Agreed management action/timing

Court, the claims have been remitted back to the Employment Tribunal to consider the question of equal value.

There is a risk that the council is not properly prepared for any financial implications that may arise from any future judgements on this issue.

ongoing with claimants and their representatives to agree an appropriate settlement figure.

Director of Governance and Solicitor to the Council.

Ongoing

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes considering the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested a sample of journal entries.</p> <p>We reviewed accounting estimates.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</p> <p>We tested a sample of accruals and prepayments.</p> <p>We evaluated significant transactions that were outside the normal course of business.</p> <p>We did not identify any instances of management manipulating accounting records or overriding controls.</p>
<p>2 Risk of fraud over income</p> <p>Glasgow City Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Particular areas of concern include council tax, non-domestic rates and income from sundry debtors.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>We carried out an analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</p> <p>We substantively tested a sample of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for income.</p> <p>We tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies. Therefore, the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>We are satisfied that the council has arrangements in place to minimise the risk of fraud over income.</p> <p>We carried out an analytical review of expenditure streams to confirm completeness and identify any unusual transactions or variations in expenditure.</p> <p>We substantively tested a sample of expenditure transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for expenditure.</p> <p>We tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p> <p>We are satisfied that the council has arrangements in place to minimise the risk of fraud over expenditure.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Completion of 'review of the work of an expert' for the professional actuary, and review of appropriateness of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non-current assets and of provisions, including provisions for equal pay claims.</p> <p>Sample check accruals and provisions in the 2017/18 annual accounts.</p>	<p>We completed a 'review of the work of an expert' for the professional valuer.</p> <p>We completed a 'review of the work of an expert' for the professional actuary, and a review of appropriateness of actuarial assumptions.</p> <p>We focused substantive testing on key areas of non-current assets and of provisions.</p> <p>We tested a sample of accruals and provisions in the 2017/18 annual accounts.</p> <p>We are satisfied with the adequacy of the council's estimations and judgements</p>
<p>5 Group disclosures</p> <p>There have been a number of significant changes in the council's group structure over the last year. On 1 April 2017 City Building entered into a joint venture with the Wheatley Housing Group (WHG).</p>	<p>An assessment of the council's treatment of its group components.</p> <p>A review of the council's arrangements for the consolidation process for its financial statements.</p>	<p>We assessed the council's treatment of its group components.</p> <p>We reviewed the council's group consolidation process for its financial statements and tested a sample of significant adjustments.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>In December 2017 SERCO, the council's ICT and facilities management partner, exited from the Service Glasgow Limited Liability Partnership (ACCESS).</p> <p>There is a risk that these changes to the council's group structure are not properly accounted for in the group financial statements.</p>	<p>Focused testing of the group financial statements.</p>	<p>We carried out focused testing where there had been significant changes to the group.</p> <p>We are satisfied that the council's group financial statements have been properly disclosed.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice











<p>6 Financial sustainability</p> <p>In June 2017 the council set out its Financial Framework 2018-23 and forecast that the significant financial challenges it faces over the medium term will require a similar level of savings to the £200 million delivered over the last five years.</p> <p>The council has recognised equal pay obligations following the judgement of the Court of Session in May 2017 in relation to its pay protection arrangements.</p> <p>Also, in January 2018 the council decided not to appeal a Court of Session ruling on its job evaluation scheme, and instead address equal pay claims through negotiation with the claimants' representatives. While the cost of dealing with the claims has yet to be determined it is likely to be significant.</p> <p>There is a risk that the council is unable to deliver the required savings or meet emerging commitments without adversely affecting the level and quality of service provision.</p>	<p>Consideration of the council's longer term financial management arrangements as part of our best value work.</p> <p>Monitor the council's financial position both through its revenue budget monitoring reports and longer term financial plans presented to committee.</p> <p>Meetings with officers.</p> <p>Ongoing review of the council's savings programme progress reports to committee.</p> <p>Review of provisions and contingent liability disclosures as part of our financial statements audit.</p> <p>Review of papers and other documentary evidence assessing the financial implications of equal pay settlements.</p> <p>Comment in our Best Value Assurance Report and Annual Audit Report.</p>	<p>We considered the council's longer term financial management arrangements.</p> <p>We reviewed budget monitoring reports and longer term financial plans presented to committee.</p> <p>Our meetings with officers included discussions on the council's financial plans.</p> <p>We reviewed savings programme progress reports to committee.</p> <p>We reviewed provisions and contingent liability disclosures as part of our financial statements audit.</p> <p>We reviewed papers and other documentary evidence assessing the financial implications of equal pay settlements.</p> <p>We found the council to have strong financial management arrangements.</p> <p>The council's commitment to resolve outstanding equal pay claims means it faces a period of unprecedented financial pressure.</p> <p>We have commented on the council's financial position in our BVAR.</p>
<p>7 Delivery of Strategic Objectives</p> <p>In November 2017 the council approved its Strategic Plan 2017-2022. This sets out the council's priority themes and commitments for the next five years. At the same time the</p>	<p>Consideration of the council's financial and performance management arrangements as part of our best value work.</p> <p>Monitor the council's financial and non-financial performance through financial and</p>	<p>We considered the council's financial and performance management arrangements.</p> <p>We reviewed financial and performance reports presented to committee.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>council faces significant financial challenges.</p> <p>The successful delivery of the council's strategic objectives requires robust financial and performance management arrangements that are properly aligned to the new strategic plan.</p> <p>There is a risk that the council will not achieve its strategic objectives.</p>	<p>performance reports presented to committee.</p> <p>Meetings with officers.</p> <p>Comment in our Best Value Assurance Report and Annual Audit Report.</p>	<p>Our meetings with officers included discussions on the delivery of the council's strategic objectives.</p> <p>We comment in our BVAR on the council's arrangements for achieving its strategic objectives.</p> <p>Overall, we are satisfied with the council's arrangements for achieving its strategic objectives.</p>
<p>8 ICT Strategy and Service Provision</p> <p>The council has entered into a seven-year contract with CGI for the provision of ICT services. The new contract will commence on 1 April 2018. The council is currently developing an overall ICT strategy to support the achievement of its medium term strategic objectives.</p> <p>The implementation of new service direction and delivery arrangements is a significant change that requires careful management by the council.</p> <p>There is a risk that the revised ICT arrangements do not fully support the council in achieving its strategic objectives.</p>	<p>Consideration of the council's arrangements for managing the change in ICT service provision.</p> <p>Monitor the council's performance through performance reports presented to committee.</p> <p>Meetings with officers.</p> <p>Comment in our Best Value Assurance Report and Annual Audit Report.</p>	<p>Considered the council's arrangements for managing the change in ICT service provision.</p> <p>Our meetings with officers included discussions on ICT Strategy and Service Provision.</p> <p>We comment in our BVAR on the changes the council has made to its ICT services.</p> <p>We are satisfied that the council has arrangements in place to manage the changes it has made to the provision of its ICT services.</p>
<p>9 Strategic Partnership arrangements</p> <p>The council works with a number of key partners in delivering its strategic objectives. These partnerships include arrangements such as the joint venture between City Building and the Wheatley Group, and the new ICT framework contract to be delivered by CGI.</p> <p>Sound governance and performance management arrangements are crucial to partnership working. Without these, there is a risk that the partnership does not work effectively, impacting on the council's ability to deliver its strategic objectives.</p>	<p>Consideration of the council's governance and performance management arrangements.</p> <p>Monitor the council's progress on strategic objectives through performance reports presented to committee.</p> <p>Meetings with officers.</p> <p>Comment in our Best Value Assurance Report and Annual Audit Report.</p>	<p>We considered the council's governance and performance management arrangements.</p> <p>We reviewed performance reports presented to committee.</p> <p>Our meetings with officers included discussions on Strategic Partnership arrangements.</p> <p>We comment in our BVAR on the council's Strategic Partnership arrangements.</p> <p>Overall, we have found that the council works effectively with its strategic partners.</p>

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Glasgow City Council

2017/18 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk