

Glasgow City Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

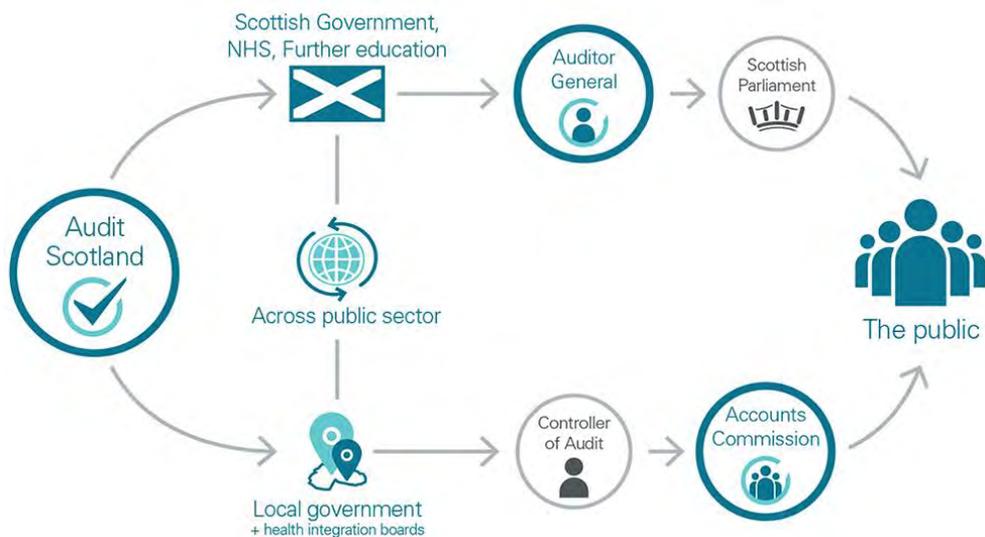
To Members of Glasgow City Council and the Controller of Audit

28 September 2017

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	5
Part 1 Audit of 2016/17 annual accounts	7
Part 2 Financial management	12
Part 3 Financial sustainability	19
Part 4 Governance and transparency	24
Part 5 Value for money	30
Appendix 1 Action plan 2016/17	33
Appendix 2 Significant audit risks identified during planning	35
Appendix 3 Summary of national performance reports 2016/17	39

Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified and covered the financial statements, management commentary, remuneration report and the annual governance statement.

Financial management

- 2 Financial management is effective with a budget process focussed on the Council's priorities. In recent years the Council has consistently delivered services within budget while achieving significant savings.
- 3 Our testing of the design and operation of internal financial controls confirmed that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial sustainability

- 4 Financial plans are aligned to the Council priorities and clearly demonstrate how future budget challenges will be addressed.
- 5 The Council's financial position is sustainable in the medium term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels.

Governance and transparency

- 6 The Council's governance arrangements are appropriate and support the scrutiny of Council decisions. The governance arrangements promote openness and transparency in the way the Council conducts its business.
- 7 The implications of equal pay judgements should be kept under review and quantified as appropriate in order that they can be incorporated into the Council's financial plans.

Value for money

- 8 There are well established arrangements in place for managing performance across the Council and its ALEOs. This helps to ensure compliance with guidance on funding external bodies and following the public pound.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of Glasgow City Council.

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Finance and Audit Scrutiny Committee. This report comprises:

- an audit of the annual accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Council's main financial systems and governance arrangements
- audit work covering the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources
- an audit of the Council's 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.

4. Glasgow City Council is responsible for preparing the annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland)

Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within Glasgow City Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1 \(page 33\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** 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.
- 12.** 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 2016/17 annual accounts



Main judgements

Our audit opinions were all unqualified. These covered the Council and group financial statements, the management commentary, the remuneration report and the annual governance statement.

There were no unadjusted errors arising from our audit work.

Unqualified audit opinions

13. The annual accounts for the year ended 31 March 2017 were approved by the City Administration Committee on 28 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements of the council and group
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of the Council's annual accounts for audit

15. We received the unaudited annual accounts on 28 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.

16. In 2016/17, for the first time, the Council's group accounts included the financial results of the Glasgow City Integration Joint Board (IJB). We have obtained the necessary assurances on the accuracy and completeness of IJB figures included in the Council's group accounts.

17. The Council's group accounts incorporate thirteen subsidiaries, associates, or joint ventures. We have obtained assurances from the auditors of significant entities, and confirmed the group consolidation reflects the audited accounts for these entities.

18. The working papers provided with the unaudited report and accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

Risk of material misstatement

19. [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

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

and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these, and conclusions.

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

21. Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the annual accounts and following completion of audit testing we reviewed and revised our original materiality calculations as shown in [Exhibit 2](#). This had no impact on our planned audit approach.

Exhibit 2 Materiality values

Materiality level	Amount set at planning stage	Revised Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£22.4 million	£27.7 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of overall materiality.	£15.7 million	£19.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£0.1 million	£0.1 million

Source: Audit Scotland

Evaluation of misstatements

23. There were no material adjustments to the unaudited financial statements arising from our audit. Three monetary errors were identified in the Council's unaudited financial statements:

- an understatement of £1.740 million in both the council tax debtor and council tax creditor
- an understatement of £1.1 million in the holiday pay accrual
- a reclassification of £0.5 million Public Private Partnership (PPP) interest costs within the Comprehensive Income and Expenditure Statement (CIES).

24. These errors have been corrected in the audited accounts. The net impact of the changes was a £1.1 million increase in the deficit on the provision of services within the CIES, and a corresponding increase in creditors in the balance sheet. Correction of these errors did not impact on the Council's General Fund reserve balance of £59.232 million at 31 March 2017.

25. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. There were no unadjusted errors above our reporting threshold which impact the Council's primary financial statements.

Significant findings

26. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. 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).

Exhibit 3

Significant findings from the audit of Glasgow City Council

Issue	Resolution
<p>1. Post balance sheet events - equal pay (pay protection)</p> <p>In May 2017, the Council was notified of a decision of the Court of Session that it had been unsuccessful in its appeal against long standing equal pay claims relating to pay protection, affecting around 8,000 claimants. The Council has since commenced dialogue and data sharing with claimants and their representatives with a view to agreeing principles and comparators to be used when assessing and settling claims. However at this time, the Council does not believe it has sufficient information to quantify, or reflect in its accounts, the potential costs involved in settling the claims.</p>	<p>The Council has recognised an unquantified contingent liability in Note 30 (contingent liabilities) of the financial statements. Narrative has also been included in Note 31 (events after the balance sheet date) referencing the decision.</p> <p>We have reviewed the disclosures in the financial statements and consider them to be appropriate.</p> <p>We will continue to review the Council's progress on quantifying this matter and settling claims as part of our 2017/18 audit.</p>
<p>2. Post balance sheet events – equal pay (Job Evaluation Scheme)</p> <p>In August 2017, the Court of Session made a separate equal pay decision in relation to the Council's Job Evaluation Scheme (JES). It ruled that the Employment Tribunal and Employment Appeal Tribunal, in concluding the Council's JES was a valid scheme, did not have sufficient information to reach that determination. It remitted the claims back to the Employment Tribunal to proceed as equal value claims. The Council has applied to the Court of Session for leave to appeal to the Supreme Court.</p> <p>At this present point the Council has not recognised this as a liability in the financial statements. It is of the view there is insufficient information to quantify, or reflect in its accounts, the potential costs involved in settling any related claims.</p>	<p>The Council has included narrative in note 31 (events after the balance sheet date) referencing the decision.</p> <p>We have reviewed the disclosures in the financial statements and consider them to be appropriate.</p> <p>We will continue to monitor progress on this matter as part of our 2017/18 audit.</p>

Going concern

27. The financial statements of the Council and its group have been prepared on the going concern basis. We are unaware of any material uncertainty that may cast significant doubt on the Council's and its group's ability to continue as a going concern.

Other findings

28. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and are reflected in the audited annual accounts.

Objections

29. 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.

30. Two statutory objections were made to the 2016/17 financial statements of Glasgow City Council. The first objection related to Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

31. We determined that the points raised did not meet the criteria to be considered as an objection to the accounts and have therefore treated the matter as correspondence received. Our consideration of this correspondence and our findings are documented at paragraphs 62 to 66.

32. The second objection we received related to Public Private Partnerships (PPP). We determined that one point met the criteria to be considered as an objection to the accounts. The objector considered that the fair value of financial liabilities disclosed within group note 15 of the financial statements did not fully represent the exit costs associated with leaving the PPP contract, and that the disclosures in the accounts relating to PPP were insufficient.

33. A hearing took place with the objector to ascertain any further specific details and information in relation to their concerns. This information was considered when determining our financial statements audit procedures.

34. We reviewed the fair value of financial liabilities at note 28.3 and group note 15 of the financial statements to ascertain whether they were properly calculated, and that the disclosures complied with the requirements of the Code of Practice for Local Authority Accounting in the UK 2016-17. The fair values of financial liabilities disclosed in note 28.3 and group note 15 reflect the present value of future cash flows associated with council borrowings, which are shown at amortised cost in the council balance sheet. Future liabilities associated with PPP are properly excluded from this disclosure note.

35. We also reviewed the disclosures made in note 10 (Education Services – Public Private Partnership) and note 29 (deferred liabilities) to ascertain whether they complied with the Code requirements. The Code states that councils should recognise a financial liability initially at the fair value of the associated assets, and write this down each year until it is extinguished at the end of the PPP agreement. It should also disclose details of future payments due, split between service charges, interest, and repayment of the financial liability.

36. In note 29 to the accounts, the Council recognises a deferred liability of £115.133 million which is the written down financial liability associated with the

PPP arrangement. We have agreed the calculation of this liability to the Council's PPP financial model. We also agreed the value of future repayments disclosed in note 10 to the PPP financial model, and confirmed that the presentation of note 10 meets the disclosure requirements set out in the Code.

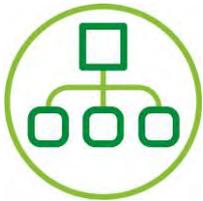
37. We are satisfied that the PPP financial liabilities are properly disclosed in the financial statements, in line with the requirements of the Code of Practice for Local Authority Accounting.

Whole of Government Accounts

38. The Council submitted a consolidation pack for the whole of government accounts audit on 24 July 2017. We plan to submit the certified return to the National Audit Office by 29 September 2017.

Part 2

Financial management



Main judgements

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

The Council has a good track record of delivering services within budget over recent years.

The Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.

Financial performance in 2016/17

39. In March 2016 the Council approved the 2016/17 net expenditure budget of £1,483.381 million. The budget was aligned to the Council's main priorities:

- Economic Growth
- Vibrant City
- Sustainable City
- Vulnerable People
- Learning City.

40. In each period, members approved budget updates to reflect new monies, operational changes and any additional changes. Budget over/underspends are managed during the year as part of the Council's financial management arrangements. During 2016/17, overspends were reported in the following areas:

- Education Services - due to staff costs associated with increasing school rolls
- Development and Regeneration Services - due to low levels of income from building control applications
- Financial Services - due to increasing demands on the Scottish Welfare fund
- Land and Environment Services - due to a shortfall in commercial refuse collection income.

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

41. The total of these overspends was offset by lower than anticipated Council Tax Reduction Scheme payments.

42. On 15 June 2017, the Council reported a year-end forecast of £2.8 million underspend against the updated budget with the outturn position varied across services. The variations against the revised budget are summarised in [Exhibit 4](#).

Exhibit 4

Summary of variances against revised budget

Area	Under/over spend (£m)	Reason(s) for variance
Underspends		
Financial Services	£2.4	Lower than anticipated Council Tax Reduction Scheme payments
Chief Executives Office	£0.1	Reflects underspends in supplies and services and premises costs across the service
Related Companies	£0.5	Reflects an underspend in relation to service fee due to ACCESS
Overspends		
Development and Regeneration Services	£0.2	Lower than anticipated building control income from applications

Source: Glasgow City Council 2016/17 Outturn Report

43. The Council reported an accounting deficit of £60.5 million on the provision of services in 2016/17 (£3.7m deficit in 2015/16). Adjusting this balance to remove the accounting entries required by the Code, the Council's general fund balance reduced by £2.3 million.

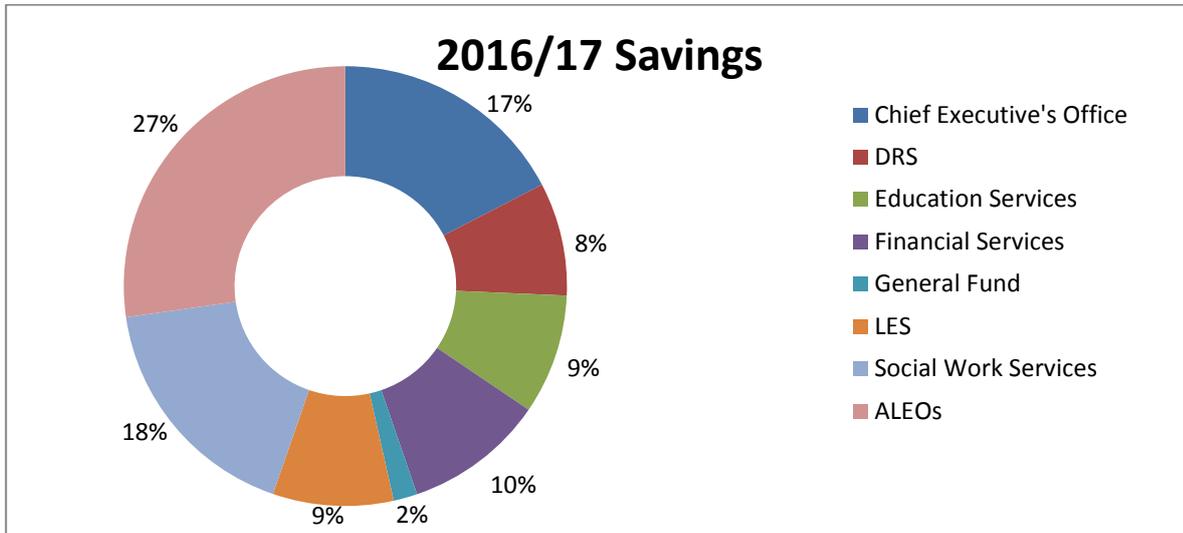
Efficiency savings

44. 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.

45. The Council is required to make an annual return to the Scottish Government in respect of recurring efficiency savings. Savings plans and progress towards targets are routinely reported to the Executive Committee.

46. The Council's 2016/17 budget incorporated savings of £57.5 million to be realised through mainly the 2016-18 Transformation Strategy and Programme. The progress of the programme is regularly monitored and reported to committee throughout the year. The outturn position shows that the programme achieved £54.6m (95%) of savings within 2016-17. The percentage of overall savings is summarised in [Exhibit 5](#). The shortfall in savings has been offset by underspends in other budget lines.

Exhibit 5 2016/17 Savings



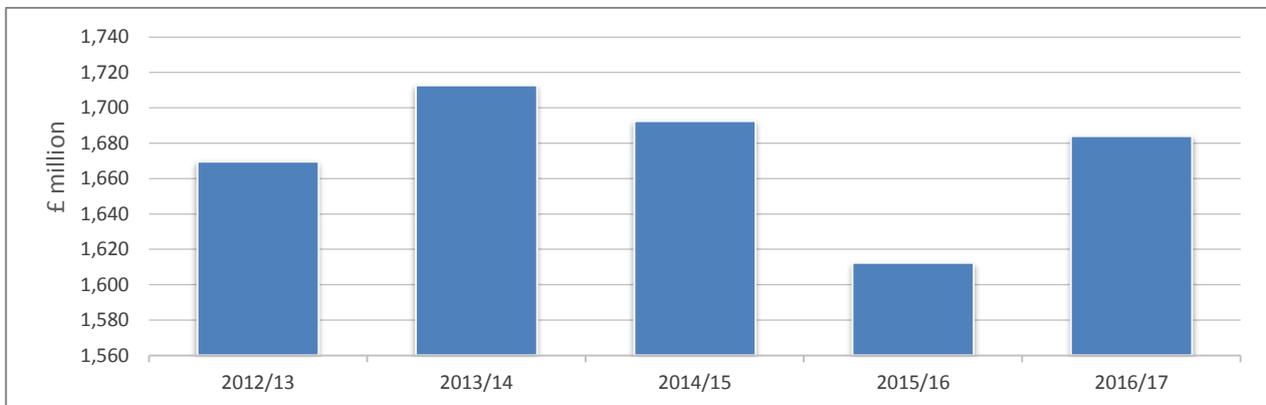
Source: Glasgow City Council Transforming Glasgow – one year report

47. Over the last five years the Council has successfully delivered £220 million of savings which is indicative of effective financial management arrangements covering planning, monitoring and reporting.

Borrowing in 2016/17

48. Over the last five years, the Council's indebtedness has remained fairly constant as outlined in Exhibit 6. Outstanding debt at 31st March 2017 was £1,684.0 million, an increase of £71.6 million on the previous year. Public Works Loan Board (PWLB) loans of £51.7 million were repaid during 2016/17, with £93.4 million of new loans taken out.

Exhibit 6 Total indebtedness over past 5 years



Source: Glasgow City Council Annual Accounts

49. The Council's policy is to borrow only for capital investment purposes and to meet short-term cash flow requirements. As at 31 March 2017 the council had a

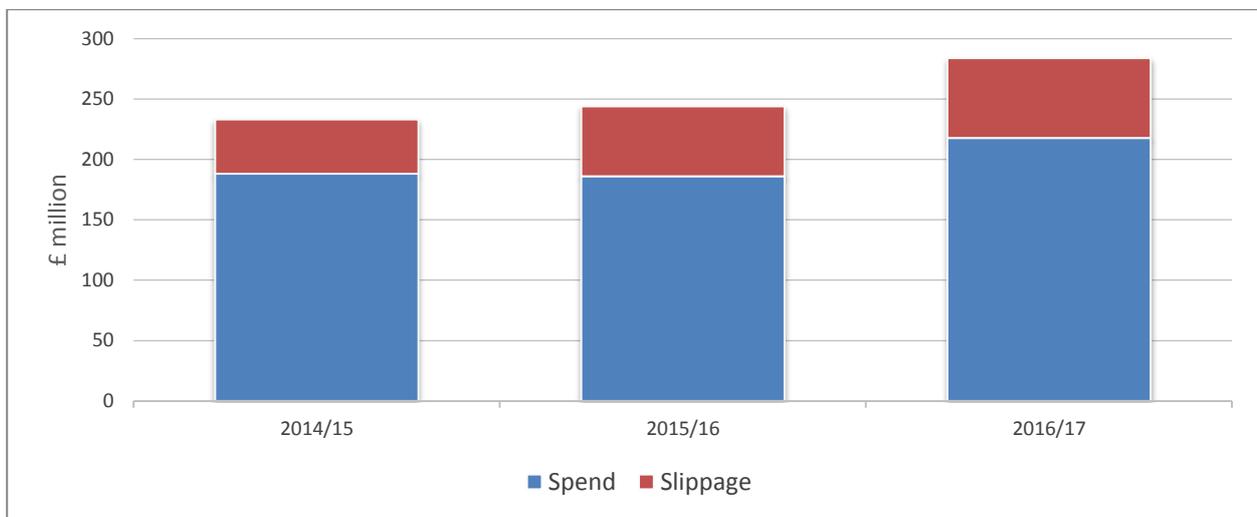
Capital Financing Requirement (CFR) of £1,827 million, which reflects the underlying need to borrow for capital purposes. As at 31 March 2017, net external borrowing was £1,663 million, £164 million lower than the CFR.

2016/17 Investment Programme

50. Planned investment programme expenditure in 2016/17 was £283.8 million and the outturn expenditure was £217.8 million, £66.0 million less than planned. The level of slippage with the 2016/17 investment programme is similar to that in previous years as outlined in [Exhibit 7](#).

Exhibit 7

Capital slippage compared to planned expenditure



Source: GCC Annual Accounts

51. The main areas of slippage in the investment programme relate to City Deal and community assets projects, which will now be phased over future years.

Budgetary monitoring and control

52. The [Local Government in Scotland: Financial overview 2015/16](#) (November 2016) 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.

53. In June 2017 a report on the Financial Framework 2018-23 was submitted to the Executive Committee setting out the Council's approach to financial planning that will underpin the budget process for 2018-19 and beyond. The report highlighted the main challenges facing the Council over the next five years. These include potential reductions in funding settlements, increasing payroll and pension costs, demographic changes and new legislative changes such as welfare reform and waste regulations.

54. The Council is currently working on a more detailed financial forecast that will cover the next three years. This will take account of the current financial outlook and consider a range of options including efficiency savings, income generation, partnership working, capital investment and use of reserves.

55. In line with good practice, the Council's budget and savings plans are aligned to its strategic priorities as set out in its strategic plans. Detailed scrutiny of the

Council's financial performance is delegated to the Finance and Audit Scrutiny committee which receives monthly revenue reports, quarterly capital monitoring reports and year-end outturn reports.

56. From our review of the financial monitoring reports and attendance at committee we concluded that they adequately provide an overall picture of the budget position at service level. The monthly reports include forecast out-turn position for the year and include good narrative explanations for significant variances against budget. The content and format of the monitoring reports are sufficient to allow appropriate scrutiny of the Council's finances by members and officers.

Financial capacity within the Council

57. The Section 95 officer for the Council is the Acting Executive Director of Financial Services, who is a member of the corporate management team with direct access to the chief executive and Council members. We have concluded that the Section 95 officer has appropriate status within the Council.

58. With the recent Council elections there have been a number of new members elected. It is important that they receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We reviewed the induction training and materials provided to new and re-elected members and concluded that the Council provided a thorough and relevant programme of induction and training for members.

Internal controls

59. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of 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.

60. Our findings were reported in our interim audit report that was agreed with officers in July 2017. 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.

61. The Council's annual governance statement includes the Head of Audit and Inspection's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the council's governance and internal control environment which operated during 2016/17.

Correspondence referred to the auditor by Audit Scotland

62. During the year we received correspondence on the Council's use of Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

63. The Council has around £449 million of these standard LOBOs within its market debt portfolio. These LOBOs were taken out during 2004-2007 in line with the Council's treasury management strategy to mitigate the Council's exposure to potential rising interest rates.

64. In following up this correspondence we have held discussions with senior officers and the Council's treasury advisers, and reviewed supporting papers including an analysis of the LOBOs held by the Council and comparable PWLB rates of interest, and the Council's treasury management policies and controls.

65. Based on our work we can conclude that:

- the use of LOBOs has been undertaken in line with the Council's treasury management policy, which has been reviewed and approved annually by councillors
- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the Council's interest costs to date on these loans have been less than the PWLB equivalent
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.

66. There are no further issues for us to raise in this report.

Prevention and detection of fraud

67. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.

68. Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

National Fraud Initiative

69. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated 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 error.

70. The latest position on NFI investigations by the Council is summarised in [Exhibit 8](#).

Exhibit 8

National Fraud Initiative

Total number of matches



36,889

Number recommended for investigation



8,926

Completed/closed investigations



2,926

Source: NFI website @ 1 August 2017

71. The Council is pro-active in prioritising and investigating matches and the results of NFI activity are regularly reported to committee. Latest progress on NFI

2016/17 outcomes was reported to the Finance and Audit Scrutiny committee in February 2017.

72. Overall, we are satisfied that the Council is fully committed to NFI.

Part 3

Financial sustainability



Main judgements

Financial planning arrangements are good, with a medium term financial forecast in place, along with financial plans aligned to the Council priorities and setting out how future budget challenges will be addressed.

The Council has a sustainable financial position in the medium term although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels.

Good progress has been made delivering the required savings in the 2016-18 Transformation Programme.

The level of un-earmarked reserves maintained by the Council, equating to 2% of the net budgeted expenditure, is considered reasonable.

Financial planning

73. It is important that the Council has long-term financial plans in place which link spending to the Council's strategies. Although councillors may only approve the 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 the Council.

74. Good practice, as set out in our [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014) recommends that public bodies should include scenario planning as part of their financial strategy. 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.

75. In June 2017, the Council set out its medium-term financial forecast in its 2018-23 Financial Framework which will underpin the Council's budget process over the next five years. A more detailed financial forecast will be prepared estimating the spending gap for the next 2 to 3 years which will inform the 2018/19 budget process. This forecast and a range of budget options will be prepared for consideration by members.

76. The Council's new Strategic Plan is scheduled for approval in November 2017. It is important that the Council's financial plans are aligned with its new strategic objectives.

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.

Recommendation 1

Financial plans and performance targets should be reviewed to ensure they are robust and aligned with the new strategic aims of the Council.

77. As part of its annual budget process, the Council consults with stakeholders in a variety of ways including public meetings, on-line consultation and household surveys. This helps the Council to identify areas of priority and allows the opportunity for the Council to explain the impact of spending decisions.

78. Members' involvement in the annual budget and longer term financial planning allows the opportunity to consider the available options and effect that the financial plans have on services and stakeholders. During the budget process members have access to officers from across the Council family and officers also provide briefings as part of this process. This allows members to scrutinise and challenge the impact of financial decisions before deciding on budget proposals.

79. Based on our audit work to date, we are satisfied the Council has appropriate arrangements in place to engage with stakeholders and members through the annual budget process and longer-term financial planning.

Funding position

80. The Council approved its 2017/18 budget in February 2017. The net expenditure budget was set at £1,489.6 million with a contribution from reserve balances of £7.3 million. The budget includes agreed savings plans totalling £57.2 million.

81. The Council has experienced spending gaps of £220 million over the last five years and expects that future spending gaps will be on a similar scale. The significant challenges identified by the Council in maintaining a sustainable financial position over the next five years include rising demands for services, increasing costs of services and reductions in central government funding.

82. To addressing the expected financial challenges it faces the Council is considering a range of actions and these include:

- efficiency savings - focussing on workforce productivity, service redesign and other large areas of expenditure such as procurement
- income generation - review of existing prices, identification of new charging opportunities and Council Tax increases
- partnership working - with other city partners and local authorities
- Investment Programme - managing the costs within existing budgetary provisions
- Use of reserves – managed within the current target of 2% in un-earmarked reserves over the medium term.

83. The Financial Framework 2018-2023 report highlighted that due to the scale of the financial challenge it faces, the Council will need to consider reductions in the scope and scale of services delivered, aligned to Council priorities.

84. Members will consider how the Council will meet future financial challenges as part of the annual budget process.

Savings plans

85. In March 2016, the Council set its 2016-2018 revenue budget which identified initial savings targets savings of £104.4 million, with £57.8 million to be delivered in 2016/17 and £46.6 million in 2017/18. Since then the savings targets have been revised and

- the Council achieved 95% of its revised 2016/17 savings target of £57.5 million
- the 2017/18 Period 4 budget monitoring report forecasts deliverable savings of £46.8 million (82.0%) against a revised target of £57.2 million.

86. As stated above, the Council expects that required future savings beyond 2017/18 will be similar to the £220 million of savings delivered over the last five years.

87. It will be a significant challenge for the Council to continue to deliver substantial savings year on year. To do so it is important that effective financial plans are in place and that these plans include a risk assessment of key factors and assumptions to ensure that they are reliable.

Recommendation 1

Financial plans and performance targets should be reviewed to ensure they are robust and aligned with the new strategic aims of the Council.

Transformation Programme

88. Audit Scotland's *An overview of local government in Scotland 2016* (March 2016) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.

89. In November 2015 the Council agreed the Transformation Strategy and Programme 2016-18 to deliver the savings needed to meet the financial forecast and challenges up to 2018. Initially the programme was expected to deliver savings of at least £121 million over the two year period. The programme focusses on

- **Transforming the Council Family** – operational, workforce and process improvements to deliver more efficient ways of working, reducing duplication, and deliver leaner workforce structures
- **The Council Family Review** - to deliver a business operating model which is fit for purpose, focused, agile and responsive, in the context of the financial challenges faced, legislative changes and the Council's priorities
- **Transforming the City** - working with Community Planning Partners/Clyde Valley Councils to reduce costs and improve outcomes in service areas where we can improve together.

90. The programme includes the following types of projects:

- **LEAN:** the redesign and streamlining of internal processes and better use of technology and automation to internal and customer processes to achieve efficiencies

- **FLO:** the reduction of management costs through increased productivity and streamlining of management processes
- **LEO:** the realignment of professional and support services across the Council and its ALEOs to reduce duplication and improve efficiency
- **Council “family”:** the restructuring of the Council and its ALEOs.

91. The Council has comprehensive arrangements for monitoring its transformation programmes that includes:

- clear governance structures with responsibilities assigned to appropriate named senior officers
- progress reports submitted to the Extended Council Management Team, Executive Committee and the Finance and Audit Scrutiny Committee
- programme monitoring reports covering project targets and milestones and implementation risks and issues
- monitoring of each service and ALEO against the key transformation requirements of finance, delivery and workforce.

92. On 31 August 2017 the Council reported in their 2017/18 Period 4 Budget Monitoring report that the forecast shortfall in 2017/18 savings (£46.8 million against the approved budget of £57.2 million) mainly reflects projected shortfalls in a number of projects relating to Property, LEAN, Procurement, Mobile Working and FLO. The Council continues to monitor and manage progress in achieving savings through the transformation programme.

93. Across the Council family, work is ongoing to develop and implement the various strands of the Transformation Programme. The monitoring report highlighted that Executive Directors of Services and Managing Directors of ALEOs are committed to the overall delivery of the programme and are working to implement projects as effectively as possible. In the interim, the Council reports that actions are being taken across the Council family to minimise the impact of any shortfalls and manage budgets overall as far as possible.

94. In its spring 2017 members newsletter, the Council reported:

- around 1,300 people have left the council since the programme started
- savings of around 750 full-time equivalent posts by not back-filling and using external funding for posts
- 400 staff had registered for redeployment from across the council family
- progress had been made to make the Council’s back-office more efficient and its workforce more flexible
- going forward the focus is on reducing expenditure and securing other income streams.

95. As part of the transformation programme the Council continues with its review of the ‘Council family’ which aims to ensure the most efficient and effective delivery of services by the Council and its ALEOs. Developments to date in this area include:

- the merger of Glasgow City Marketing Bureau and Glasgow Life

- the partnership between the Wheatley Group and City Building
- proposals for the replacement of the ICT and Facilities Management contract from April 2018.

96. In the first year of the Transformation Programme the Council has successfully delivered the projects needed to achieve the planned savings. However a significant challenge remains for the Council to deliver the year two savings target of £57.2 million. Also to address the forecast significant savings required beyond 2017/18, the Council will require a new strategy that replaces the current Transformation Programme which covers the period to March 2018.

Reserves

97. 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 decreased from £112 million in 2015/16 to £110 million in 2016/17.

98. The general fund reserve is the largest usable reserve and has a balance of £59 million as at 31 March 2017. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. A total of £27 million has been earmarked to meet future expenditure.

99. The Council reviews the level of its uncommitted reserves when setting the budget each year and its approved reserves strategy is to maintain balances to 2% of the net budgeted expenditure over the medium term. The level of uncommitted general fund reserves as at 31 March 2017 was £32 million which is in line with strategy.

100. [Exhibit 9](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows a trend of increasing general fund reserves in recent years. The Council's use of reserves appears reasonably based, however potential financial risks around equal pay settlements, and the impact on general fund reserves, will need to be considered as part of future financial plans.

Exhibit 9

Analysis of general fund reserve over last five years



Source: GCC Annual Accounts

Part 4

Governance and transparency



Main Judgements

The Council has appropriate arrangements in place that support scrutiny of decisions made by the Council and its standing committees.

The Council is open and transparent in the way that it conducts its business.

The implications of equal pay judgements should be kept under review and quantified as appropriate in order that they can be incorporated into the Council's financial plans.

Governance arrangements

101. Members and management of the Council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

102. During the year we reviewed the Council's governance arrangements and considered these alongside the recommendations made in the Audit Scotland 2011 national report on [the role of boards](#). Our work included consideration of the following:

- Are governance, decision-making and scrutiny arrangements effective?
- Does the Council manage risk effectively?
- Did members receive adequate induction and training to allow them to fulfil their roles?

103. We found that the Council has an effective system of financial governance which includes committees, schemes of delegation, standing orders, statutory officer roles, financial scrutiny and internal audit. Following the appointment of the new Administration in May 2017, the Council has reviewed and refreshed the roles of its scrutiny and governance committees.

104. The Council's Risk Management Strategy has been in place since 2009/10 and is currently being reviewed, together with the Risk Management Policy. Risk management arrangements are well established and include

- maintaining a range of risk registers covering corporate, service and project level risks
- the Operational Risk Management Forum that reviews corporate and service risks

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.

- regular reporting and monitoring of risks at committee.

105. As part of our financial statements audit, we considered the governance arrangements in place for approval of early retirement and severance departures. Applications are submitted along with a business case outlining the rationale for a departure, including details of any associated costs and payback periods. Authority to approve applications is delegated to the Chief Executive.

106. During 2016/17, two applications for early departure were considered and approved. Whilst we noted there was scope to improve the documentation of considerations made through the process, we are satisfied that the governance arrangements in place at the Council are appropriate and were followed.

107. Overall we found that the Council's governance and risk management arrangements are appropriate and effective and that they support good governance and accountability.

Transparency

108. Transparency means that the public, in particular local residents, 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.

109. There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are available on the Council's website.

110. 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. The Council publishes an annual Glasgow Household Survey of residents on its website. The survey measures citizens' usage and satisfaction in a number of key services provided by the council and its Arms Length External Organisations (ALEOs). The information gathered is used to inform service and strategy development.

111. 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.

112. Overall, we concluded that the Council conducts its business in an open and transparent manner.

Management commentary, annual governance statement and remuneration report

113. [*The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*](#) 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 also clearly address the longer-term financial sustainability of the body.

114. Based on our knowledge and work performed, we concluded that the management commentary was fair and balanced, and along with the annual governance statement and remuneration report, was consistent with the financial statements.

Internal audit

115. Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

116. The internal audit function is carried out by the Council's Internal Audit section. We carried out a review of the adequacy of the internal audit function and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

117. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In relation to our 2016/17 financial statements audit, we placed formal reliance on aspects of internal audit's work in the following areas: accounts payable, system access, and budget monitoring. We also considered internal audit report findings as part of our wider dimension work in the following areas:

- Statutory Performance Indicators
- business continuity
- risk management
- Members expenses
- transformation governance
- information security
- grants
- data matching.

118. We note that Internal Audit found that a limited level of assurance could be placed upon the control environment in two specific areas; information security arrangements in the use of electronic surveys, and charge setting and receipt of income for events held at the Lighthouse. In all other areas a reasonable or better level of assurance can be placed on the control environment. In all cases management action has been agreed to address areas for improvement.

ICT Services

119. The Council's current ICT and Facilities Management contract is due to end on 31 March 2018. In December 2016 the Council confirmed that its preferred option for the provision of ICT services was to utilise the framework CGI contract procured by City of Edinburgh Council, with the responsibility for facilities management returning to the 'Glasgow family'. In April 2017 the Council approved the award of the ICT contract to CGI IT UK Ltd, subject to the completion of the Full Business Case (FBC) and delegated authority to the Chief Executive to conclude the legal agreement on terms satisfactory to the Council.

120. The Council's current service provider, SERCO, has raised a legal action in relation to the procurement process for ICT services. The Court of Session is due to consider the case at an initial hearing in September 2017 followed by a full hearing in November 2017.

121. The successful procurement and delivery of new ICT services from April 2018 will present significant challenges to the Council. The Council has arrangements in place to manage this transition process. However there remains a risk that the Council is unable to deliver its preferred option for ICT services by April 2018.

Recommendation 2

The Council should ensure appropriate arrangements are in place to manage the ICT service provision during the period of transition.

Joint Venture

122. On 1 April 2017 the Council entered in to a 30 year 50/50 joint venture agreement with Wheatley Housing Group (WHG), the parent company of Glasgow Housing Association (GHA). The partnership between Scotland's largest council and the country's biggest social landlord involves WHG taking a 50% shareholding in City Building Glasgow which will undertake all repair work for GHA and WHG's other social landlords in the west of Scotland.

123. It is intended that the joint venture provide a range of benefits to the Council and the city. A business plan has been developed covering the first five years of the joint venture which includes annual savings of £2.5 million by year five to be achieved through procurement, operational efficiencies, turnover of staff and shared services. It is important that robust governance arrangements are in place to ensure that the joint venture delivers the expected benefits and financial objectives.

Recommendation 3

Robust governance arrangements should be put in place to ensure that the joint venture delivers the expected benefits for the Council.

Integration of health and social care

124. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible.

125. The Glasgow City Integration Joint Board (IJB) is provided in partnership with NHS Greater Glasgow and Clyde and became fully operational on 1 April 2016. The financial transactions for 2016/17 of the Glasgow City IJB have been consolidated into the Council's group accounts.

126. The Council has good arrangements in place to identify all financial transactions that relate to the IJB. There are also proper arrangements in place to agree the council's share of the IJB budget and to provide officers with appropriate financial information to enable Glasgow City IJB to monitor its financial budget.

127. The Council's contribution to the IJB for 2016/17 was a net budget of £395.0 million. This includes budgets within Social Work Services, Development and Regeneration Services and Land and Environmental Services. The Council has notified the IJB of its funding for 2017/18, which incorporates the IJB share of the Council's efficiency requirements.

128. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is not due until spring 2018 and auditors will be in a better position to assess progress once the work on this report has been completed.

Local scrutiny plan

129. The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to Glasgow City Council in May and reported on our website.

130. The LAN identified that continuing scrutiny would be required during 2017/18 around homelessness provision and landlord services. This work has been undertaken by the Scottish Housing Regulator as part of its regular monitoring and review activity. The Council will also be subject to a range of nationally driven scrutiny activity as set out in the LSP.

Equalities

131. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

132. We reviewed the Council's Equality Progress Report 2017 and concluded the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

133. The Council has also published an Equality Outcomes 2017 to 2021 report. This report presents a second set of equality outcomes, which build on those agreed in 2013, and establishes some new priorities. These outcomes reflect the Council's equality priorities.

134. We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

Equal pay

135. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. Glasgow City Council implemented single status in April 2006 and reports that between 2004/05 and 2015/16 it has spent £91.4 million compensating workers who had been unfairly paid and settling equal pay claims.

136. Almost 27,000 equal pay claims across Scotland remain live and Glasgow City Council still has 11,065 live claims, excluding duplicates. Workers could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

137. The Council has recognised an obligation following the judgement of the Court of Session in May 2017 in relation to the council's pay protection arrangements. While the financial implications of these negotiations have yet to be quantified the Council has reported that it will require to re-assess its levels of reserves in light of any future agreements.

Recommendation 4

The financial implications of this equal pay judgement should be quantified in order that they can be incorporated into the Council's financial plans.

138. On 18 August 2017 the Court of Session quashed the previous judgements of the Employment Tribunal and of the Employment Appeal Tribunal in relation to the validity of the Council's Job Evaluation Scheme. The matter has, subject to any further appeal to the Supreme Court, now been passed back to the Employment Tribunal to consider the question of equal value.

Recommendation 5

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.

Part 5

Value for money



Main judgements

There are well established arrangements in place for managing performance across the Council and its ALEOs. This helps to ensure compliance with guidance on funding external bodies and following the public pound.

Best Value

139. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be 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. The BVAR report for Glasgow City Council is planned for 2018.

140. The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The findings of this work are reported in the previous sections of this report. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Following the public pound

141. 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.

142. Many of the Council's services which are key to the delivery of the Council's priorities and objectives are provided on its behalf by Arm's Length External Organisations (ALEOs). As such it is essential that the Council operates effective governance and performance management arrangements over its ALEOs.

143. ALEO budgets are closely monitored by the Council. Any risks relating to the possible failure to deliver efficiencies and/or return planned surpluses are managed by the Council through its financial governance and risk management arrangements.

144. The Council's original 2016/17 budget included total contributions from its ALEOs of £12.6 million. These contributions were partly contingent on the delivery of the Transformation Programme. Total 2016/17 contributions received from ALEO's was £10.2 million. This is mainly as a result of the impact of delayed transformation savings within Cordia, the ALEO responsible for delivering welfare services.

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

145. The Council continues with a detailed review of its ALEOs as part of its Transforming Glasgow programme. A savings target of £15 million for 2017/18 has been set for its ALEOs as part of the overall transformation savings of £57.2 million. In addition to these savings the council budget anticipates contributions from a number of ALEOs totalling £18.7 million in 2017/18.

146. Audit Scotland is currently carrying out a performance audit of Scottish councils' use of ALEOs and has selected Glasgow City Council, alongside a number of others, for a more in depth look at the arrangements. The report is due to be published in Spring 2018.

147. We concluded that the Council has appropriate arrangements for monitoring the performance of ALEOs and ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Performance management

148. The Council's performance management arrangements have been operating effectively for a number of years. Performance is monitored against the key themes included in the council's Strategic Plan and is reported to the council's Extended Council Management Team and the policy development and scrutiny committees. Each service in the Council produces an Annual Service Plan and Improvement Report which outlines key performance measures as well as budget proposals and targets.

149. 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.

150. The fifth annual [National Benchmarking Overview Report](#) by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. In line with previous reports this report will be submitted to the committee(s) with the responsibility for scrutiny of the council financial and operational performance.

Overview of performance targets

151. In August 2017 the Executive Committee approved the 2016/17 Annual Performance Report which was the final progress report for the Council Strategic Plan 2012 to 2017 and updated by the Council Strategic Plan Refresh in 2015. The report showed that 124 out of the 127 targets identified across the five strategic themes have been met or are on target for delivery.

152. Key achievements highlighted in the Annual Performance Report include:

- facilitating the building of 3,500 new homes across the city by March 2017
- delivering of the initial phase of the £1.13 billion City Deal for Glasgow
- completion, ahead of schedule, of Phase 1 development of the Kelvin Hall
- launching the new Glasgow's Tourism and Visitor Plan to 2023
- successful partnership approach to tackling poverty across the city
- continuing improvement in educational attainment and increased numbers of school leavers going on to a positive destination.

153. The Council reported that it requires additional powers to deliver on the three targets that are not being met:

- Community payback orders: monitor those who have alcohol-related offences.
- Make sure that our citizens have a good choice of services from shops and premises within our local communities;
 - A. Appropriate mix of food outlets, with as many as possible supporting healthy eating
 - B. No overprovision of betting shops.

154. There are two performance measures where the Council has not yet met its target:

- **Ensure the smooth launch and operation of the Glasgow Recycling and Renewable Energy Centre (GRREC) at Polmadie in June 2016.** There has been a delay in the Glasgow Recycling and Renewable Energy Centre at Polmadie becoming fully operational. A new contractor is in place and the full service is scheduled to go live in Summer 2018.
- **Guarantee a job or college place for all children leaving care. Find innovative ways to support them to sustain the place and to attend college or training.** In 2016/17, 63% of care leavers went into positive destinations compared to 51% when the Council Strategic Plan in 2012 was launched.

Statutory performance indicators (SPIs)

155. 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.

156. For 2016/17 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

157. Overall we concluded that the Council's arrangements for publication are satisfactory.

National performance audit reports

158. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

159. The Council has well established arrangements in place to ensure that all national reports and their impact on the Council are considered by members. These arrangements will require to be reviewed if any changes are made to the Council's committee structure following its current review.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
20 21	<p>1. 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.</p> <p>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>Financial plans and performance targets will be aligned to the new strategic plan.</p> <p>Acting Executive Director of Financial Services, Strategic Advisor to the Chief Executive.</p> <p>March 2018.</p>
27	<p>2. 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>Arrangements are in place to manage the transition process. These will be kept under review to ensure they remain appropriate.</p> <p>Director of Governance and Solicitor to the Council.</p> <p>March 2018.</p>



Page
no.

Issue/risk

Recommendation

Agreed
management
action/timing

27	<p>3. City Building LLP</p> <p>The joint venture between the Council and Wheatley Housing Group will see City Building undertaking all repair work for GHA and WHG's other social landlords in the west of Scotland.</p> <p>This new working arrangements 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>Appropriate arrangements have been established to manage the governance of the Joint Venture through the Council ALEO governance arrangements, which are being enhanced by the role within the Council of Corporate Landlord.</p> <p>Director of Governance and Solicitor to the Council.</p> <p>Complete.</p>
29	<p>4. 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>Work is currently ongoing to establish the financial implications of this judgement. These will be taken into account in the council's financial planning.</p> <p>Director of Governance and Solicitor to the Council, Acting Executive Director of Financial Services.</p> <p>Ongoing</p>
29	<p>5. 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 Court, the claims have been remitted back to the Employment Tribunal to consider the question of equal value.</p> <p>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.</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>The Council is currently considering the implications of this judgement.</p> <p>Director of Governance and Solicitor to the Council.</p> <p>Ongoing.</p>

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 opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of 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 consideration of 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 and expenditure</p> <p>ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector Practice Note 10.</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. The risk of fraud over expenditure also applies due to the variety and</p>	<p>Analytical procedures on income / expenditure streams.</p> <p>Detailed testing of revenue / 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 carried out an analytical review of income and expenditure streams to confirm completeness and identify any unusual transactions or variations in income.</p> <p>We substantively tested a sample of income and expenditure transactions to confirm occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for income and expenditure.</p> <p>We tested a sample of journal entries.</p> <p>We reviewed accounting estimates.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>extent of expenditure made by the council in delivering services.</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 income and expenditure.</p>
<p>3 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, pensions 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 appropriate of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non current assets and of provisions.</p> <p>Sample check accruals and provisions in the 2016/17 annual accounts.</p>	<p>We completed a 'review of the work of an expert' for the professional valuer.</p> <p>We completed of 'review of the work of an expert' for the professional actuary, and review of appropriate of actuarial assumptions.</p> <p>We focused substantive testing on key areas of non current assets and on provisions.</p> <p>We tested a sample of accruals and provisions in the 2016/17 annual accounts.</p> <p>We are satisfied with the adequacy of the council's estimations and judgements.</p>
<p>4 Group accounts consolidation of Integration Joint Board</p> <p>From 1 April 2016, the Glasgow City Integration Joint Board (IJB) has been operational and will be included in the council's accounts for the first time in 2016/17. The IJB is responsible for commissioning adult social care while the council is responsible for delivering services.</p> <p>There are risks that:</p> <ul style="list-style-type: none"> • transactions relating to the IJB are not correctly classified by the council • balances between the council and its IJB partners are not agreed in time for preparation of the financial statements • overspends occur if scrutiny of partnership budgets is not effective. Any overspends by the IJB will directly impact the council's budget. 	<p>Sample test income and expenditure relating to health and social care services provided to the IJB.</p> <p>Review the arrangements in place to confirm balances between the council and its IJB partners.</p> <p>Confirm whether any overspends or underspends relating to the council are accounted for in accordance with the integration scheme.</p>	<p>We tested a sample of income and expenditure relating to health and social care services provided to the IJB.</p> <p>We reviewed the arrangements in place to confirm balances between the council and its IJB partners.</p> <p>We confirmed that the IJB underspend relating to the council is accounted for in accordance with the integration scheme.</p> <p>We are satisfied that</p> <ul style="list-style-type: none"> • transactions relating to the IJB are correctly classified • balances between the council and its IJB partners were agreed in time for preparation of the financial statements • scrutiny of partnership budgets is effective.

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>5 Financial sustainability</p> <p>The council's 2016-18 revenue budget identified a funding gap of £130m with planned savings of £83m in 2016/17 and £47m in 2017/18. This was subsequently revised to £53m in 2017/18 upon receipt of the Local Government Settlement.</p> <p>The Period 8 2016/17 budget monitoring report shows the council is on track to meet its 2016/17 savings target.</p> <p>Given the significant savings already made by the council in recent years, achieving the remaining planned savings without adversely affecting the level and quality of services still presents a significant challenge.</p>	<p>Undertake specific audit work on financial sustainability and financial management as part of our "audit dimensions" work. This will include consideration of the robustness of long term financial planning.</p> <p>Monitor the council's financial position via revenue budget monitoring reports presented to committee and meetings with officers.</p> <p>Ongoing review of transformation programme progress reports to committee, and comment in annual audit report.</p>	<p>We reviewed the council's arrangements for financial sustainability and financial governance, including long term financial planning.</p> <p>We monitored the council's financial position via revenue budget monitoring reports.</p> <p>We reviewed the transformation programme progress reports to committee.</p> <p>The council's 2016/17 outturn report shows that that the programme achieved £54.6m (95%) of savings within 2016-17 based on a revised target of £57.5m.</p>
<p>6 Transformation Programme</p> <p>The successful delivery of the transformation programme is key for the council to achieve its savings targets.</p> <p>The size and complexity of the transformation programme presents a significant challenge to the council.</p> <p>There is a risk that the council does not have capacity to deliver its ambitious transformation programme and thus is unable to address the identified funding gap.</p>	<p>Develop our understanding of key processes in the council's transformation strategy and programme.</p> <p>Review the council's progress in delivering the transformation Programme.</p>	<p>We reviewed committee papers and reports on the transformation strategy and programme.</p> <p>We reviewed the latest council reports on progress in delivering the Transformation Programme.</p> <p>We are satisfied that the Council has made good progress with the delivery of the Transformation Programme</p>
<p>7 ICT & Facilities Management Contract</p> <p>The council's ICT and Facilities Management contract with ACCESS ends on 31 March 2018.</p> <p>In December 2016, the council approved the development of an outline business case on the preferred option of utilising the framework CGI contract procured by City of Edinburgh Council. However following notification of potential legal action by council's current service provider, SERCO, in</p>	<p>Review of the council's programme management arrangements.</p> <p>Review of the council's progress in delivering the new contract.</p>	<p>We reviewed of the council's arrangements for the successful delivery of the preferred option for the new ICT contract.</p> <p>We reviewed the council's progress in preparing for the transition to the new contract.</p> <p>We are satisfied with the council's arrangements managing the transition to the new ICT contract.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>relation to the procurement process, the council paused dialogue with CGI.</p> <p>The successful procurement and delivery of new ICT and facilities management services will present significant challenges to the council and there is a risk that the council's preferred option for future delivery is not delivered on time.</p>		
<p>8 Local government elections</p> <p>The 2017 local government elections will result in changes to council membership. There is a risk of a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required</p>	<p>Review the council's arrangements for the induction and training of new members.</p> <p>Follow up work on our 2011 national report on the role of boards.</p>	<p>We reviewed the council's arrangements for the induction and training of new members.</p> <p>We carried out follow up work on our 2011 national report on the role of boards.</p> <p>We are satisfied with the council's arrangements for ensuring that members understand their roles and have the necessary skills to make informed decisions</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

Local government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Maintaining Scotland's roads – a follow up report](#) – August 2016

[Social work in Scotland](#) – September 2016

[Local government in Scotland: Financial overview 2015/16](#) – November 2016

Glasgow City Council

2016/17 Annual Audit Report

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